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1013184
No. 17209 ✓

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

HOWARD G. BIBLE,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

FRANCES C. WHELAN,
United States Attorney,

THOMAS R. SHERIDAN,
*Assistant United States Attorney,
Chief Criminal Section,*

ELMER ENSTROM, JR.,
Assistant United States Attorney,

600 Federal Building,
Los Angeles 12, California,

Attorneys for Appellee.

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Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

I.

JURISDICTIONAL STATEMENT.

This is an appeal from a judgment of the United States District Court for the Southern District of California, adjudging appellant to be guilty as charged in an indictment following a jury trial. This Court has jurisdiction to entertain this appeal and to review the judgment under Title 28, United States Code, Section 1291.

II.

STATEMENT OF THE CASE.

The Indictment which is set forth as Appendix A charges appellant with procuring the commission of the offense of illegal importation of narcotics in violation of Title 21, United States Code, Section 174, and Title 18, United States Code 2. Before the trial a motion to suppress evidence by appellant was heard on October 25, 1960, and denied after testimony had been taken out

of the presence of the jury. At this hearing appellant (the only witness called by appellant) disclaimed any interest to the evidence (heroin) which he sought to suppress [R. T. 13].*

The trial proceeded immediately following the hearing on the motion to suppress [R. T. 33]. A verdict of guilty was returned on October 26, 1950 [R. T. 255]. On November 22, 1960, appellant was sentenced to imprisonment for a period of ten years [C. T. 71]**. Timely notice of appeal was filed [C. T. 72]. Thereafter a motion to proceed *in forma pauperis* was denied and the District Court certified on July 30, 1961, pursuant to Section 1915, Title 28, United States Code, that said appeal was not taken in good faith. Subsequently this Court on November 22, 1961, granted leave of appellant to proceed *in forma pauperis*.

III.

SPECIFICATION OF ERROR.

Appellant has specified that the trial court committed error:

1. In denying appellant's motion to suppress the narcotics brought into the United States from Mexico by Nehemiah Steele and in admitting same into evidence;
2. In the instructions on accomplice testimony;
3. In admitting evidence of "prior misconduct" of appellant.

*R. T. refers to Reporter's Transcript of Proceedings.

**C. T. refers to Clerk's Transcript of Record.

IV.

STATEMENT OF FACTS.

On the morning of September 1, 1960, appellant picked up Leon Matthews and a person named "Frenchie" on Jackson Street in Seattle, Washington, in his 1959 Ford [R. T. 112, 114]. He told Matthews he was going to California, indicating Fresno or Bakersfield [R. T. 112, 113].

Appellant then went to his mother's house in Seattle where he picked up his brother-in-law, Nehemiah Steele, who had no money, advising Steele that he was going to Los Angeles [R. T. 129, 130]. Bible then drove with the other three men in his automobile from Seattle through Fresno and Bakersfield to Los Angeles stopping only for gas and food, which appellant paid for [R. T. 116-118, 131]. At Los Angeles "Frenchie" left the group, and Bible told Matthews and Steele that they would continue on to Tijuana [R. T. 117, 131]. After taking around twenty minutes "gassing" up the car in Los Angeles, Bible drove said vehicle directly to Tijuana where Bible, Matthews and Steele entered Mexico at about eight p.m. at night on September 2, 1960 [R. T. 118, 119, 131].

Steele testified that Bible parked the car in Tijuana; that he, Steele, went to a bar and had a drink and then had something to eat; that Bible was away from him at this time; that he saw Bible later when Bible handed him the "stuff" [Ex. 1A] stating, "We will start back out;" and told Steele to "walk on across with it." [R. T. 132-134]. Steele testified he thought the package was heroin, but he didn't open it to look at it and that he was supposed to meet Bible at a

filling station outside the Customs office in the United States [R. T. 134, 135].

Steele testified further that he had made about four trips to Tijuana previously with Bible in which he, Steele, had walked across the border with similar packages after same had been passed to him in Mexico by Bible; and that he had thereafter met Bible on the American side of the border [R. T. 135-137]. The court received this testimony only for the purpose of showing intent and state of mind of the appellant, fully instructing the jury as to its limited nature both at the time the evidence was received and later in the formal instructions, as set forth in Appendix B [R. T. 137]. Bible told Steele he would receive one hundred dollars for taking this package across the line and Steele had received one hundred dollars on each of the prior occasions from Bible [R. T. 139, 140]. On those occasions he personally carried the substance to Seattle and gave it to Bible there [R. T. 137]. On three of the occasions Steele had met Bible at the filling station across the border and one time he caught the bus and met Bible in Los Angeles [R. T. 147].

On cross-examination, Steele testified he had plead guilty to the indictment [R. T. 141; Appendix A]; denied that he had implicated Bible, his brother-in-law, for any reason other than that after he was arrested with the narcotics he "had no other alternative but to go on and tell the truth about it." [R. T. 149, 150].

Steele after receiving the package from Bible, was left in Tijuana by Bible, and Bible and Mathews immediately thereafter drove to the border [R. T. 121, 127] where appellant was observed by Acting Customs Inspector Timmerman on September 2, at about 11:15

p.m. driving the 1959 Ford into the United States from Mexico at the San Diego Port of Entry with Matthews as his passenger [R. T. 82-84]. Timmerman directed the car to secondary inspection and turned the car and occupants over to Customs Inspector James Wait [R. T. 84-86].

Wait searched appellant and Matthews and did not find contraband on their persons, but observed needle marks on the arms of Matthews [R. T. 87-90]. He finished the personal searches about 11:30 p.m. and then searched the 1959 Ford in which no contraband was found, but in which about \$200.00 which appellant said belonged to him was found under the front floor mat of the automobile [R. T. 90, 91]. Wait completed the search of said Ford about 12:10 a.m. [R. T. 93].

In the meantime, Steele walked to the border with the narcotics on his person after stopping to have something more to eat [R. T. 135, 145]. Steele entered the United States at about 12:05 a.m. on September 3 in the pedestrian traffic lane at the port of entry where he was observed by Customs Inspector Richard L. McCown to be walking with a group of eight or nine negro men and women [R. T. 97]. McCown questioned all of these individuals as to their place of birth and as to what they were bringing from Mexico at which time he detected a nervous condition on the part of Steele which he did not detect in the others [R. T. 97, 98]. The other persons were passed directly through [R. T. 98, 104] while Steele was escorted to a search room where he was personally searched by McCown who found a cellophane package [Ex. 1A] in Steele's crotch which contained slightly over an ounce of heroin [R. T. 76-78, 99].

On cross-examination McCown described Steele as having a rapid palpitation in the pit of his throat and "also detected a nervous twitch to the corner of his mouth and a slight tremble in his voice." McCown did not at first detect the nervous condition on the approach of Steele but upon questioning Steele he then detected the described nervous condition [R. T. 102, 103].

Appellant testified that he got together with "Frenchie," Steele and Matthews and started a trip south from Seattle on September 1, 1960. He stated it was for the purpose of going to Los Angeles for a week-end holiday and to see about getting a job in Bakersfield [R. T. 153]. He said he financed the trip and that when he got to Los Angeles he changed his mind and continued on to Tijuana after leaving "Frenchie" at Los Angeles. Bible stated he first arrived at the purpose of going to Tijuana around 3:00 p.m. o'clock (September 2) when he was in Los Angeles; that he, Steele and Matthews arrived in Tijuana later that day about 7:30 p.m. He said he intended to stay in Tijuana a couple of days but after arriving there decided to go back to Los Angeles [R. T. 155]. Bible denied at any time having the purpose of dealing or assisting anyone in dealing with narcotics and denied dealing in narcotics in Tijuana [R. T. 155, 156]. Appellant stated that in Tijuana he spent about an hour and a half at a gas station getting an oil change and some gas and then walked up and down the street with Steele where they had a few drinks while Matthews remained in the car; that he and Steele went back to the automobile together and that "Steele decided" he would stay over in Tijuana and would take the bus back [R. T. 156-158]. Bible testified he drove directly to the border with

Matthews, and claimed that while he had been in Mexico he had not acquired any narcotics, had not promised to give Steele \$100.00 to transport anything across the line, and had never given Steele any money at any time to take anything across the line into the United States [R. T. 159, 160].

On cross-examination Bible admitted that he had been to Tijuana two or three times before this occasion. Appellant also admitted that it had been his 1959 Ford automobile that had been used for the trip and that he paid for the gas and drove the automobile down to Tijuana [R. T. 161, 162]. The mileage on this Ford purchased in April, 1959, at the time of the trip was about 49,000 miles [R. T. 203]. He denied that he had told Agent Spohr that he had not been in Tijuana for more than a year, and that he had not seen his brother-in-law Steele at any time on this trip [R. T. 161-163]. Bible admitted making three trips to Tijuana in 1960 and that he had \$224.00 in the automobile [R. T. 166]. Bible testified that the total time he spent in Tijuana was about three and one-half hours; and that the period during the trip from Seattle to Tijuana that the auto was not being driven was about one hour in Fresno and a half hour in Los Angeles [R. T. 167, 168].

Customs Agent Clarence Spohr testified in rebuttal he had a conversation with appellant about 2:30 a.m. September 3, 1960, and that appellant told Spohr just he, Bible, and Matthews had come down from Seattle and that Steele had not come down from Seattle with him on this trip, which was the first trip he had made in over a year [R. T. 177].

V.

ARGUMENT.

A. The Trial Court Did Not Commit Error in Denying Appellant's Motion to Suppress Narcotics Brought Into the United States by Nehemiah Steele and in Admitting Same Into Evidence.

1. The Border Search of Nehemiah Steele Was Lawfully Conducted.

Appellant seeks first to have this court adopt the theory advanced in the case of *Witt v. United States*, 287 F. 2d 389 (1961), that an international traveler entering the United States through a port of entry supervised by the Bureau of Customs may not be searched for contraband unless the Customs Inspectors have probable cause to believe that the entrant is concealing contraband. This contention was exhaustively presented in the foregoing case, rehearing being denied April 3, 1961. For that reason appellee does not propose to represent in detail its opposition to another attempt to limit the power of the sovereign to control the introduction of contraband across its borders from abroad. Suffice it to say that this proposition was carefully considered by this court, which pointed out the distinction between searches at the border and those elsewhere at page 391 of the *Witt* case, as follows:

“Much is said on this appeal about an unlawful search. This was border search; and while it, as well as any other, must be lawfully conducted, different rules of law are applicable, and for over a hundred years have been applicable with respect to the plenary power to search at the border and the more circumscribed search power existing any-

where else within the country's boundaries. This distinction was recognized by the very Congress which proposed for adoption the amendments to the Constitution, including the Fourth which prohibited unreasonable search and seizures. Plainly, 'the members of that body did not regard searches and seizures of this kind as "unreasonable" and they are not embraced within the prohibition of the amendment.' *Boyd v. United States*, 1885, 116 U. S. 616, at page 623, 6 S. Ct. 524, at page 528, 29 L. Ed. 746; *Carroll v. United States*, 1924, 267 U. S. 132, 159—160, 45 S. Ct. 280, 69 L. Ed. 543. No question of whether there is probable cause for a search exists when the search is incidental to the crossing of an international border, for there is reason and probable cause to search every person entering the United States from a foreign country, by reason of such entry alone. That the customs authorities do not search every person crossing the border does not mean they have waived their right to do so, when they see fit."

In this case Nehemiah Steele was detected by a Customs Inspector as manifesting a nervous condition not noticeable in others of a group of eight or nine persons with whom Steele was entering the United States from Mexico at the San Diego (San Ysidro) Port of Entry. The inspector interrogated all of these persons at the time they entered the United States at said port on foot and passed all but Steele. Noticing Steele's outward manifestations of nervousness, among other things, the customs inspector conducted a personal search which resulted in the finding of over an ounce of heroin concealed in Steele's crotch.

Although Steele has not complained that he was the object of any illegal search, appellant now claims on appeal that he, Bible, can assert an alleged illegal search of another in his own behalf. This assertion comes after Bible's own counsel at the trial level apparently recognized a right to conduct a routine search at the border for the welfare of the country, contending at that time that a search of Bible would be unlawful if it went "beyond this general power and discriminate(d) for any reason, either because of improper information or because of race . . ." [R. T. 30]. However, appellant made no showing, nor is it now contended that it was shown that discrimination of the nature upon which trial counsel founded his motion to suppress was present at the search of Bible. Since appellant at the trial apparently recognized a general right to search Steele on mere suspicion, as stated in *Cervants v. United States* (9th Cir., 1959), 263 F. 2d 800, it is understandable why further details surrounding the search of Steele were not gone into. Therefore, it would appear improper for appellant to now contend that the record is "barren of anything to justify the search (of Steele) rationally" because he was objecting at the trial level to testimony such as that concerning the apprehensiveness of Steele [R. T. 97; Appellant's Br. 22]. It is significant, however, that what was stated by Steele as contrasted with others entering the United States with Steele formed a part of the basis for the search of Steele [R. T. 102, 103]. Thus the record shows a proper basis for the suspicion which the inspector obviously had to believe Steele was carrying contraband, because there would be no other reason for conducting a personal search of this person while passing through

without a search others with whom Steele attempted to enter.

The entry of Bible and Steele occurred at a port of entry where personal searches for narcotics have been found to be frequently necessary.

Witt v. United States, supra, p. 392, Note 3;

Blackford v. United States (9th Cir. 1957),
247 F. 2d 745, cert. denied 356 U. S. 914
(1958).

2. Appellant Bible Had No "Standing" to Assert an
Alleged Unlawful Search of Steele.

Appellant next contends that he is entitled to move to suppress evidence seized from a third person, Steele, on the ground of an alleged illegal search of that person. Appellant, in effect, concedes that he is required under Rule 41(e) of the Federal Rules of Criminal Procedure to show that he was in some way aggrieved by an unlawful search and seizure of the object sought to be suppressed (Appellant's Br. 11). However, the evidence shows that appellant claimed no possessory ownership in the contraband; in fact, he claimed he didn't know about any contraband being brought into the United States by Steele [R. T. 13]. Notwithstanding his sworn testimony disclaiming any interest in or knowledge of the contraband carried in by another person, appellant asserts that he has standing under *Jones v. United States*, 362 U. S. 257 (1960), to complain of an alleged unlawful search of Nehemiah Steele.

But the case of *Jones v. United States, supra*, cannot confer standing, because the appellee in this case did not have nor attempt to have the advantage of contradictory positions as a basis for conviction. This is

evidenced by the fact that Appellant is charged with having "induced, procured, aided, abetted and assisted" the commission of the offense by Steele. Consistent with this theory the government did not ask for nor receive any instructions on the permissible inference of guilt arising from possession. Undoubtedly, such an instruction would be requisite to establishing the charge on the basis of possession under the *Jones* case, *supra*. It follows that the necessity for a preliminary showing of standing to suppress property seized was not eliminated; *a fortiori*, when the property was seized by a customs officer from the person of another as the result of a border search.

In analyzing the *Jones* case further, the Supreme Court at page 258 refers to the statutory provisions in that case permitting conviction upon proof of possession of the narcotics. This can only mean the provisions similar to that set forth in Sec. 174 of Title 21, United States Code, as follows:

"Whenever on trial for a violation of this section the defendant is shown to have or to have had possession of the narcotic drug, such possession shall be deemed sufficient evidence to authorize conviction unless the defendant explains the possession to the satisfaction of the jury."

Since that provision was omitted from the instructions below, the conviction of Bible was obtained under instructions similar to those in the ordinary criminal case. A further distinction is noted between the charges in the *Jones* case of sale of narcotics and concealment of

narcotics by Jones, as contrasted from the instant charge that Bible abetted the importation of narcotics by Steele. It thus becomes clear that the government has not prosecuted the within case on the basis of possession within the meaning of *Jones v. United States*. Yet appellant seeks to give a person charged with a narcotic offense special status in raising a motion to suppress, not available in other Federal criminal cases, beyond the dictum in the *Jones* case, which case also held that the petitioner there made out a sufficient interest in the premises to establish him as a "person aggrieved" by the search (257 U. S. 265). This language in the *Jones* case supports the contention that standing must be properly shown by a person charged with a narcotics offense to complain of an alleged unlawful search. See also *Contreras v. United States* (9th Cir. 1961), 291 F. 2d 63 at 65.

Nor can appellant derive support for his position from the case of *Plazola v. United States*, 291 F. 2d 56, which was decided by this court in 1961 upon appeal from the Southern Division of the Southern District of California. In the *Plazola* case, Plazola and codefendant Singh were charged in two counts as principals with importing marihuana and with receipt and concealment of marihuana after importation contrary to law, while Bible here has been charged as an aider and abetter. This court specifically held the search, which occurred fifty miles inland in the *Plazola* case, was not a border search (291 F. 2d 61). In this case

the search of both Bible and Steele occurred at the port of entry. Finally, the *Plazola* case was based on possession as the following instruction on possession was given under Section 176(a) of Title 21 at page 192 of the Reporter's Transcript of that proceeding:

"Whenever on trial for a violation of this subsection, the defendant is shown to have or to have had the marihuana in his possession, such possession shall be deemed sufficient evidence to authorize conviction unless the defendant explains his possession to the satisfaction of the jury."

In the within case not only was the similar portion of the statute (21 U. S. C. 174) relating to possession entirely omitted from the trial court's instructions, but the court instructed with respect to possession as follows [R. T. 239]:

"It is not a necessary element that a defendant have possession of the heroin in order to commit the crime charged in the indictment. If another person having possession of the heroin should knowingly import and bring the heroin into the United States contrary to law, a defendant who knowingly aided, assisted, abetted, induced or procured such other person to commit that offense would likewise be guilty."

It is submitted that the trial court did not err in its rulings on the motion of Bible to suppress the heroin brought into the country by Steele and in admitting said heroin into evidence.

B. The Trial Court Did Not Err in Its Instruction on Accomplice Testimony.

Although Rule 30, Federal Rules of Criminal Procedure, provides for the submission of instructions by a defendant and the stating distinctly of the matter to which he objects, the appellant for the first time asserts that the instruction on accomplice testimony was “‘plain error’ because it precluded the jury from fairly considering that Nehemiah Steele alone was guilty.”

This instruction is set forth at R. T. 235 as follows:

“An accomplice is one who unites with another person in the commission of a crime, voluntarily and with common intent. An accomplice does not become incompetent as a witness because of participation in the crime charged. On the contrary, the testimony of an accomplice alone, if believed by you, may be of sufficient weight to sustain a verdict of guilty, even though not corroborated or supported by other evidence. However, the jury should keep in mind that such testimony is to be received with caution and weighed with great care. You should not convict a defendant upon the unsupported testimony of an accomplice, unless you believe the unsupported testimony beyond a reasonable doubt.”

In determining whether this instruction confused the jury it should be read in the light of all the other instructions and statements by the court, including the court’s comment at Reporter’s Transcript 246 as follows:

“Now you come down to what is the issue in the case, and it is a relatively simple case. The issue

is, do you believe Steele, plus the supporting matters that might assist you in that respect? Or, do you believe the defendant and the supporting matters that you might find in the evidence that would support his story? Who is telling the truth? It is just that simple.

“If you believe Bible that he knew nothing about Steele’s activities and that Steele was off on a lark of his own and brought this across, if you believe Bible, then you have a duty to acquit him. On the other hand, if you are convinced, beyond a reasonable doubt, that Bible has not told the truth and that Steele has and that it was a prearranged plan by which Bible would again pick up Steele across on the American side of the border, then you have a duty to convict the defendant. It is just that simple. Whom do you believe in this case?”

The present claim that the instruction suggests that Steele was in fact united with appellant in the commission of crime was not noted in any way by appellant’s astute trial counsel who argued vigorously before the jury to the effect that Bible did not participate in any way in the commission of this offense [R. T. 210-230]. Where a defendant has been convicted by the jury on a fair charge only the strongest kind of showing that justice has miscarried will avail him of the proposition of plain error. *Moore v. United States*, 161 F. 2d 932, 933 (5th Cir., 1947). In this connection it is noted that the trial court in its certificate that the appeal was not taken in good faith, dated July 30, 1961, found that the case against appellant was clear and his guilt overwhelming.

Finally, in the case of *United States v. Finazzo* (6th Cir. 1961), 288 F. 2d 175, Cert. Den. Oct. 9, 1961, 368 U. S. 837, the court held that a failure to give a cautionary instruction on an accomplice's testimony was not reversible error. The *Finazzo* case points out that the better practice is to give a cautionary instruction on an accomplice's testimony. This practice was of course followed by the trial court in this case and the cautionary instruction as to accomplice testimony was proper, particularly since there is no indication in the record that it was in any way misconstrued by the trial jury.

C. The Trial Court Did Not Err in Admitting Evidence of Prior Similar Trips to Tijuana by Bible and Steele.

After testifying about the trip from Seattle to Tijuana culminating in his receipt from Bible of the narcotics to carry across the border into the United States, Steele testified that he had made trips to Tijuana from the United States with appellant on previous occasions and that on those occasions he had carried similar packets from Mexico for appellant for which he received \$100.00. On three of these occasions he rejoined Bible at a service station in San Diego (San Ysidro) and on a fourth occasion he met Bible in Los Angeles, on each occasion personally carrying the narcotics to Seattle where he gave same to Bible [R. T. 135-137, 139, 140, 147]. The court instructed the jury in the form of instruction set forth at 27 F. R. D. 39 on the limited nature of this testimony as set forth in Appendix B.

Appellant concedes that evidence of prior misconduct is admissible to show knowledge, intent, identity, mo-

tive or scheme, but claims that the court erred in admitting this testimony of prior trips for any purpose and in its instructions thereon. The basis of appellant's contention that such evidence was not properly admitted appears to arise from the denial of appellant that he had anything to do with Nehemiah Steele obtaining narcotics or importing them into the United States. On the basis of this denial appellant argues that such evidence of prior trips would be proper only had Bible admitted putting the packet into Steele's hands, while denying knowledge of its contents, or putting it there while claiming his conduct was inadvertent or that he believed Steele would refrain from crossing with it into the United States. In support of this theory appellant contends further that the evidence of the 1100 mile continuous two-day trip by Bible and Steele from Seattle, Washington, to Tijuana, Baja California, Mexico, leading to the spending of about three and one-half hours in Tijuana could only be considered as an innocent trip because there was no evidence of express reference to narcotics by the parties before entering Mexico. For that reason, appellant argues, this evidence of prior trips cannot be considered with respect to the intent, state of mind, and knowledge with which Bible performed the act of bringing Steele into Mexico. However, appellant overlooks the commonly known fact that those engaged in narcotics transactions seldom if ever refer to narcotics by name, and that if reference to same is deemed necessary it is made in the language of

terms known to the parties. It would indeed be a strained construction of the evidence if an absence of testimony referring to narcotics as such before arriving in Tijuana were allowed to preclude the factfinder from considering that Bible's act in bringing Steele into Mexico was done with criminal intent.

A conviction should be sustained on appeal if there is substantial evidence, taking the view most favorable to the Government to support it. In considering the facts the reviewing court must grant every reasonable intendment in favor of appellee.

United States v. Glasser, 315 U. S. 60, 80 (1942);

Arena v. United States, 226 F. 2d 227, 229 (9th Cir. 1956), Cert. Denied, 350 U. S. 954 (1956).

Counsel at the trial level ably tried the case in behalf of appellant in accordance with his theory of defense, which of course came *after* the evidence of prior similar acts. The record reflects not only no motion to strike the testimony of prior trips, but also that there was no basis for striking said testimony because Bible's actions in transporting Steele from Seattle to Tijuana speak in this record louder than words. The jury was entitled to consider his prior acts in transporting Steele from the United States to Tijuana in connection with the intent and state of mind with which Bible transported Steele to the same place on the latest trip.

VI.
CONCLUSION.

For the foregoing reasons, it is respectfully submitted that the jury verdict of guilty in the court below should be affirmed.

Respectfully submitted,

FRANCIS C. WHELAN,
United States Attorney,

THOMAS R. SHERIDAN,
*Assistant United States Attorney,
Chief Criminal Section,*

ELMER ENSTROM JR.,
*Assistant United States Attorney,
Attorneys for Appellee.*

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

ELMER ENSTROM, JR.,
Assistant United States Attorney.

APPENDIX "A".

Indictment.

In the United States District Court, in and for the Southern District of California, Southern Division.

July, 1960, Grand Jury, Southern Division.

United States of America, Plaintiff, vs. Howard G. Bible, Nehemiah Steele, Defendants.

No. 29575-SD (U. S. C., Title 21, Section 174; U. S. C., Title 18, Section 2—Importation of narcotics; aid and abet).

The Grand Jury charges:

On or about September 3, 1960, in San Diego County, within the Southern Division of the Southern District of California, defendant Nehemiah Steele did knowingly import and bring into the United States from a foreign country, namely, Mexico, a certain narcotic drug, namely, approximately one and one-half ounces of heroin, contrary to law, and defendant Howard G. Bible induced, procured, aided, abetted and assisted in importing and bringing into the United States from Mexico said narcotic drug contrary to law.

A True Bill

Foreman

Laughlin E. Waters
United States Attorney
EE/rs

APPENDIX "B".

Instructions by Judge Carter at line 16, page 137, to line 6, page 139, of Reporter's Transcript of proceedings:

"The Court: Ladies and gentlemen, let's see if I can instruct you as to the limited purpose of this proof. Proof of prior offenses of a similar nature is admissible, either offenses that were committed without being detected or offenses for which a defendant was convicted, are admissible for a limited purpose. We don't have a 'bad boy' statute. You can't say, 'Well, he did this on previous occasions. Therefore, he must have done this on this occasion.' That is not permissible. You have to decide what happened on this occasion that the indictment refers to on the basis of the evidence here. But this proof of prior occurrences of a similar nature is admissible on the question of intent.

In every case there must be, before you can convict a defendant, a union of, or joint operation of, act and intent. The law does not punish for felonies unless there is a wilful act and, the Court will instruct you later, a guilty mind, a sense of wrongdoing on the part of the defendant.

So therefore the issue of a defendant's intent is always involved in a felony case. And on the issue of intent only, prior occurrences may be considered to help you in determining what was the intent of the defendant on the time named in the indictment.

To use an example foreign to this case. Suppose a defendant had done a certain act and there was considerable doubt in your mind whether the act he did was done with criminal intent, with a guilty mind, or

had been done inadvertently or accidentally. Proof that he had done a similar act which was an unlawful act on prior occasions might or might not assist you in determining what his intent was on the time in question.

Have I made myself clear?

On the other hand, you can't say, 'He committed some similar crimes in the past or similar offenses in the past, therefore he committed this one.' It isn't quite that simple. That is what we call a 'bad boy' statute. You can't convict a defendant because he was a bad boy in the past. If he is to be convicted, he must be proved guilty beyond a reasonable doubt of the offense charged in the indictment. You may consider proof of prior offenses of a similar nature as bearing on the question of his intent or lack of intent at the time alleged in the indictment."

Instructions by Judge Carter at line 23, page 240, continuing to line 6, page 242 of Reporter's Transcript of Proceeding:

"The next instruction I want to give you concerns how you are to consider the testimony offered by the Government through Nehemiah Steele about the prior trips to Tijuana and the prior acts as testified by Steele of Steele's bringing heroin across and Bible's having transported him down and getting him on the other side, with the exception of one instance where Steele went clear back to Los Angeles or Seattle by bus with the heroin. I gave you a limiting instruction at that time. Here is the detailed instruction. If there is any doubt between what I said at that time and what I say now, you will follow this formal instruction. Evi-

dence that an act was done at one time or on one occasion is no proof whatever that a similar act was done at another time or on another occasion. That is to say, evidence that a defendant may have committed an earlier act of like nature may not be considered in determining whether the accused committed any offense charged in the indictment. Nor may evidence of alleged earlier acts of like nature be considered for any purpose, unless the jury may first find that the other evidence in the case, standing alone, establishes, beyond reasonable doubt, that the accused did the particular acts charged in the indictment. If the jury should find, beyond a reasonable doubt, from other evidence in the case, that the accused did the acts charged in the particular count of the indictment, then the jury may consider evidence of an alleged earlier act of like nature in determining the state of mind or intent with which the accused did the act charged in the particular count. And where proof of an alleged act of like nature is established by evidence which is clear and conclusive, the jury may draw therefrom the inference that in doing the act charged in the indictment under consideration, the accused acted willfully and with specific intent and not because of mistake or inadvertence or other innocent reason."

No. 17359 ✓

**United States Court of Appeals
For the Ninth Circuit**

UNITED STATES OF AMERICA,
Appellant and Cross-Appellee,

v.

H. F. KEELER and ALICE H. KEELER, his wife,
Appellees and Cross-Appellants

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON

HONORABLE WILLIAM G. EAST, *Judge*

PETITION FOR REHEARING

DEWITT WILLIAMS
WILLIAM D. CAMERON
*Attorneys for Appellees and
Cross-Appellants*

ROSLING, WILLIAMS, LANZA & KASTNER
1440 Washington Building
Seattle 1, Washington



METROPOLITAN PRESS AND WESTERN

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COMES NOW appellee and respectfully petitions for a rehearing on the following grounds:

Appellee has been deprived of due process of law and a fair consideration and hearing in this appeal, because: (a) The opinion issued is based on certain points not raised or considered in the briefs and argument and as to which appellee has had no opportunity to present his contentions; (b) Said basic points in the opinion, so far as they are said to be rested on authority, are based on cases not cited by the government and as to which appellee has had no opportunity to respond, and (c) Errors of law in the opinion.

THE GOVERNMENT'S APPEAL

1. As Related to the Application of 26 U.S.C. § 166

Appellee properly elected to have his claims in this case decided by a jury. By the joint, but conflicting action of the District Court and the Court of Appeals, appellee herein has been deprived of this constitutional right to jury trial. The District Court, on its own* took the case from the jury and decided as a matter of uncontroverted fact that appellee "entered into this transaction solely as his relation to and a part of his going business here in Seattle" (R. 397-398). ". . . But, as I say, the whole transaction was in relation to this business, as I view it, under the undisputed facts." (R. 405).

If the Court of Appeals disagreed with said view of the facts, we submit that it should have remanded the case

*Appellee's motion for directed verdict had been upon the ground that, as a matter of law, the loss was not a "bad debt" under 26 U.S.C. § 166, but rather a loss deductible under 26 U.S.C. § 165 (see appellee's position stated at Appellees' Answer Brief, p. 38, et seq.).

for submission to a jury. As stated in the opinion at page 6:

“Whether a particular loss or expense is incurred in a taxpayer’s trade or business is a question of fact in each particular case. *Higgins v. C. I. R.*, 312, U.S. 212; Treas. Reg. 1954 Code § 1.1665.”

“Proximate” relationship (in the similar field of “proximate cause”) has repeatedly been held to be a question of fact. 5 C. J. S. § 1454 at p. 580.†

Having concluded that the District Court erred in its factual view of the case, we submit that this court should permit appellee to submit said issue of fact to a jury in a new trial. The court erroneously relied upon *Washburn v. C. I. R.*, 51 F.(2d) 949 (C.A. 8th, 1931), in terminating the case at the appellate level. This is one of the cases not cited in the government’s brief and raises an issue as to which appellee has had no opportunity to be heard. Furthermore, that case is irrelevant as the court there was considering, not the review of a *jury case* in which the appellate power to pass upon issues of law and of fact are sharply divided, but rather was reviewing a Board of Tax Appeals decision in which different principles of review are involved. This difference of a *jury case* in which the appellate power to pass upon issues of law and of fact are sharply divided, but rather was reviewing a Board of Tax Appeals decision in which different principles of review are involved. This difference is shown by the following quotation from *Tricou v. Hel-*

†As stated in *Martin, Tony v. C. I. R.*, 25 T. C. 94 (1955):

“The only issue, therefore, in determining the business or non-business character of the bad debt in question is whether there existed in the instant case the requisite proximate relation of the bad debt loss to the conduct of the taxpayer’s business. *Such question is one of fact to be decided upon the particular circumstances involved in each case. Samuel Towers*, 24 T. C. 199 (1955); *Robert Cluett*, 3rd, 8 T. C. 1178 (1947).” (Emphasis supplied)

vering, 68 F.(2d) 280 (C.C.A. 9, 1933) where the court, in commenting upon the *Washburn* case, sharply distinguished between the intermixture in board decisions of questions of fact and law as distinguished from the sharp separation of these issues in court cases (and we submit particularly in jury cases):

“It seems to us that this was an exercise by the appellate court of the very power confided by the Congress in the Board of Tax Appeals, even if it be conceded that finding that a person was engaged in a trade or business is a mixed finding of law and fact. It seems to have been assumed by the courts dealing with this very question of whether or not the taxpayer was engaged in trade or business that *the methods of procedure before the Board of Tax Appeals are not calculated to separate questions of law from questions of fact in the way they are separated in a court of law*, and therefore to endeavor to dispose of the matter by conceding to the Board of Tax Appeals its power to find the facts and exercising the power on the part of the court to declare the law. In many cases it is clear from the record before the Board of Tax Appeals that they have misconstrued the law and, where that is apparent, it has not been thought necessary to too nicely discriminate between the ultimate conclusion of fact and the evidentiary facts and statements of law contained in the findings and opinion. (Cases deleted; emphasis supplied)

The court, for the first time in the history of the applicable law, has (on the basis of cases not submitted on brief, and without the benefit of a hearing on the point) decided that the factual issue of proximate relationship can be completely taken away by an appellate court from a jury. This we submit if adhered to (especially when there is present evidence of intent and reasonable prospect of benefit to taxpayer's business) results in denial of due process in the resolution of a basic fact issue neces-

sary to be decided in every case involving the application of 26 U.S.C. § 166.

2. As Related to the Application of 26 U.S.C. § 165

The opinion of the court completely disregards appellee's alternative ground of recovery which was that he was entitled to a fully deductible loss under 26 U.S.C. § 165. This is based not only upon the cited cases holding that when a debt is fully compromised, leaving nothing further owing, the loss is not a deductible debt under 26 U.S.C. § 166 but is deductible under § 165, but also upon the point that, by the time a loss occurred, it was bottomed on entirely different facts than mere non-payment of a debt. This is fully developed, beginning at page 48 of appellees' brief, which, for sake of brevity here, we urge the court to reread, especially since the contention was disregarded in the opinion. Briefly, appellee, at the time of compromise, released an admitted security interest and a secured indebtedness to obtain release from his guarantee to the bank. Consideration given for release from a guarantee, or payment made on a guarantee *where subrogation of the rights of the creditor does not result* (as in this case), constitutes a loss deductible under 26 U.S.C. § 165. (See cases cited at p. 49 of answer brief.)

The citations of the court at page 13 to *Spring City Co. v. Commissioner*, 292 U.S. 182 (1934), and *Putnam v. Commissioner*, 352 U.S. 82 (1956), are relevant only to bad debt losses under § 166. The loss having occurred in the relinquishment of the security to obtain release from the bank guarantee, we must respectfully disagree with the statement of the court at page 13 that "there is

no question that the \$88,588.90 loss arose as a result of a bad debt and not otherwise." Appellee specifically advanced this view at pages 48 et seq. of the answer brief and on rehearing this phase of the matter should be re-examined.

CROSS-APPEAL

The Cross-Appeal was decided upon a point not raised in the government's brief and as to which appellee had had absolutely no opportunity to be heard, the gist of the opinion being that "certainly when the loss passed to taxpayer by virtue of the guarantee agreement, he should be entitled to no more favorable consideration than the original losers" (p. 17). This is a novel holding (and limitation upon § 165 (a)), not heretofore stated by any other court and totally unsupported by authority. Certainly if it is to stand as a controlling interpretation of § 165(f) appellee should have an opportunity to be heard on it, especially as the statement is in direct conflict with decisions thus far decided. For instance, in *Hale v. Cmr.*, 32 B.T.A. 3 and *Carl Hess*, 7 T.C. 333, involving guarantees against loss on stock, the party indemnified would have been entitled only to a capital loss under 165(f) and yet the indemnitor was allowed a full loss under 165(a).

Appellees respectfully submit that this Petition for Re-hearing should be granted to give them an opportunity to meet and argue the new principles announced in the opinion, not heretofore raised on briefs and either based upon cases not cited in brief or unsupported by previous relevant authority.

Respectfully submitted,

DEWITT WILLIAMS
WILLIAM D. CAMERON

*Attorneys for Appellees and
Cross-Appellants*

CERTIFICATE

The undersigned counsel for appellees and cross-appellants certify that in their judgment the foregoing petition is well founded and that it is not interposed for delay.

DEWITT WILLIAMS
WILLIAM D. CAMERON

No. 17417 ✓

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

EUGENE OLIVER BUTLER and JAMES G. SCRIBNER,

Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

FRANCIS C. WHELAN,
United States Attorney,

THOMAS R. SHERIDAN,
Assistant United States Attorney,
Chief, Criminal Section,

EDWARD M. MEDVENE,
Assistant United States Attorney,

JO ANN DUNNE,
400 Federal Building,
Los Angeles 12, California,
Attorneys for Appellee.

FILED

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No. 17417

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

EUGENE OLIVER BUTLER and JAMES G. SCRIBNER,

Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

I.

Jurisdictional Statement.

Appellants Eugene Oliver Butler and James G. Scribner were indicted on January 11, 1961, for violation of Title 18 United States Code, Section 152 and both appellants were convicted on May 1, 1961. The jurisdiction of the District Court is predicated on Title 18, United States Code, Section 3231.

A timely notice of appeal was filed for both appellants on May 8, 1961.

This Court has jurisdiction under Title 28, United States Code, Sections 1291 and 1294.

II.

Statement of the Case.

An indictment in five counts, each charging a violation of Title 18, United States Code, Section 152, was returned by the grand jury on January 11, 1961, essentially charging as follows [C. T. 2 to 5]:¹

Count One: Commencing on or about July 1, 1959, and continuing to on or about September 25, 1960, defendant Eugene Oliver Butler, an officer of the San Fernando Valley Wholesale Food Distributors, Inc., a California corporation, in contemplation of a bankruptcy proceeding against said San Fernando Valley Wholesale Food Distributors, Inc. knowingly and fraudulently transferred property of said San Fernando Valley Wholesale Food Distributors, Inc. in excess of \$8,000.

Count Two: On or about September 28, 1959, Eugene Oliver Butler knowingly and fraudulently concealed from George Gardner, receiver in the estate of San Fernando Valley Wholesale Food Distributors, Inc., in proceeding No. 102397 in United States District Court for the Southern District of California, \$8,000, property belonging to the estate of the bankrupt in said proceedings.

Count Three: On or about September 28, 1959, Eugene Oliver Butler made a false account in, and in relation to the bankruptcy proceeding of San Fernando Valley Wholesale Food Distributors, Inc., being case No. 102397 in the United States District Court for the Southern District of California, in that the schedule of assets and liabilities filed in said proceedings by

¹C.T. refers to Clerk's Transcript of Record.

said defendant understate the assets of said bankrupt by \$8,000 as defendant then and there well knew.

Count Four: Commencing on or about September 8, 1959 and continuing to on or about September 25, 1960, James G. Scribner, an agent of the San Fernando Valley Wholesale Food Distributors, Inc., a California corporation, in contemplation of bankruptcy proceedings of said bankrupt, knowingly and fraudulently transferred property of said bankrupt in excess of \$6,000.

Count Five: On or about September 30, 1959, defendant James G. Scribner knowingly and fraudulently concealed from George Gardner, receiver in the estate of San Fernando Valley Wholesale Food Distributors, Inc., in proceeding No. 102397 in the United States District Court for the Southern District of California, \$6,700, property belonging to the estate of the bankrupt in said proceedings.

Defendant Eugene Oliver Butler entered a plea of not guilty to Counts One, Two and Three, the 3 counts in which he was named, and James G. Scribner entered a plea of not guilty to Counts Four and Five, the two counts in which he was named on March 6, 1961, before the Honorable Harry C. Westover [C. T. 25].

On April 25, 1961, on the motion of the Government the Honorable Wm. C. Mathes, United States District Judge, ordered Count Three of the Indictment dismissed.

On April 25, 1961, at 9:40 A.M. jury trial was commenced. The trial of this case lasted for a period of five days. The first day of trial commenced at 9:40 A.M. The luncheon recess was from 11:50 A.M. to 2:05 P.M. The afternoon session continued to 5:50

P.M., with a 15 minute recess. [C. T. 77]. Trial continued on April 16, 1961, at 9:30 A.M., with a half hour recess in the morning. The court afforded approximately one and one half hours for a luncheon recess and trial continued to 6:45 P.M., with two one-half hour recesses in the afternoon. [C. T. 79.] On April 27, 1961, the trial continued at 9:15 A.M. with a two one-half hour recesses in the morning. The court afforded approximately one and a half hour luncheon recess. In the afternoon session the court afforded two recesses of one-half hour duration each. The dinner recess was comprised of two hours and fifteen minutes with the trial day continuing to 10:05 P.M. There was an additional recess of one half hour during the evening session of April 27, 1961. [C. T. 98.] On April 28, 1961, the trial was continued from 1:15 P.M. to 5:25 P.M. with a recess in the afternoon, and on May 1, 1961, at 9:08 A.M., the court began jury instructions. [C. T. 104.]

On May 1, 1961, the jury returned a verdict of guilty as to appellant Butler on Counts One and Two and guilty as to appellant Scribner on Counts Four and Five.

On May 1, 1961, the appellants were sentenced each to a period of four years on each count to run concurrently. [C. T. 108.]

On May 8, 1961, the appellants filed a timely notice of appeal. [C. T. 109.]

III.

Statute Involved.

The Indictment charges a violation of Section 152 of Title 18, United States Code, which provides in pertinent part:

“Whoever knowingly and fraudulently conceals from the receiver . . . or from creditors in any bankruptcy proceeding, any property belonging to the estate of a bankrupt; or

“Whoever knowingly and fraudulently makes a false oath or account in or in relation to any bankruptcy proceeding; or

“Whoever, either individually or as an agent or officer of any person or corporation, in contemplation of a bankruptcy proceeding by or against him or any other person or corporation, or with intent to defeat the bankruptcy law, knowingly and fraudulently transfers or conceals any of his property or the property of such other person or corporation; . . .

“Shall be fined not more than \$5,000 or imprisoned not more than five years, or both.”

IV.

Statement of Facts.

In November of 1957 James Scribner and Eugene Butler formed and operated the corporation known as San Fernando Valley Wholesale Food Distributors, Inc. [R. T. 306, 321.]² The combined original investment of Eugene Butler and James Scribner was under \$1,000. [R. T. 306, 321, 322.] That stock was owned 50% by Eugene Butler and 50% by Louise Scribner.

²R.T. refers to Reporter's Transcript of Record.

Louise Scribner did no work in the management of this company or any of the other Butler-Scribner corporations; played no part in making policy and actually only held the stock for her husband, James Scribner. [R. T. 306, 307, 321, 322, 527, 528.]

San Fernando Valley Wholesale Food Distributors, Inc. was a franchised freezer dealer for Orange County Wholesale Food Distributors from approximately November 1957 until San Fernando Valley Wholesale Food Distributors' filed a voluntary petition in bankruptcy on September 17, 1959. San Fernando Valley Wholesale Food Distributors sold freezers on conditional sales contracts and Orange County Wholesale Food Distributors arranged for financing the contracts at lending institutions. These leading institutions would purchase the contracts at a discount and either sent the full payment to Orange County Wholesale Food Distributors, who in turn paid a commission to its dealer San Fernando Valley Wholesale Food Distributors, or the finance company would send San Fernando Valley Wholesale Food Distributors its commission payment and the cost of the freezer was sent to Orange County Wholesale Food Distributors. [R. T. 129, 130, 193, 261.]

San Fernando Wholesale Food Distributors experienced a slump in sales approximately the first part of 1959. In addition to their decrease in sales volume, San Fernando Valley Wholesale Food Distributors' expenses were increased due to their moving into more expensive quarters. San Fernando Valley Wholesale Food Distributors financial problems continued from early 1959; the company constantly being short of funds until the filing of their petition in bankruptcy September 17, 1959. [R. T. 323, 617.]

During the spring and summer of 1959, at a time when San Fernando Valley Wholesale Distributors' financial position was worsening, appellants Butler and Scribner formed certain corporations [R. T. 531], including: San Fernando Valley Locker Service, started in April of 1959 and used to supply San Fernando Valley Food Distributors' customers with meat; the locker service relying on San Fernando Valley Wholesale Food Distributors for well over 90% of their business. [R. T. 312, 313.] Ventura County Wholesale Food Distributors, formed in approximately July 1959 allegedly to sell freezers and food to customers in the Ventura County area [R. T. 405, 406], and Preferred Enterprises, formed during the summer of 1959 by appellants at a time when San Fernando Valley Wholesale Food Distributors' condition was "shaky" [R. T. 313, 314] purportedly to handle contracts San Fernando Valley Wholesale Food Distributors was having difficulty financing. [R. T. 314, 351, 534, 540.]

In late July or early August of 1959, San Fernando Valley Wholesale Food Distributors was unable to pay certain monies then owing. [R. T. 147, 268-270.] Eugene Butler asked Orange County Wholesale Food Distributors to sell San Fernando Valley Food Distributors \$10,000 worth of freezers on a cash basis in order that he could "keep the corporation afloat at least another six months so that they could get as much out as possible." In short, to permit James Scribner and Eugene Butler (in Butler's words) "to milk the corporation for all it was worth" and also see that Orange County Wholesale Food Distributors had their money returned to them. [R. T. 152, 273.] Orange County Wholesale Food Distributors refused to ship them

\$10,000 worth of freezers but did agree to ship San Fernando Valley Wholesale Food Distributors freezers C.O.D. on an individual basis as San Fernando Valley Wholesale Food Distributors entered into an actual contract with a prospective purchaser. [R. T. 150-151, 162.]

In August of 1959, the day following Butler's comments regarding "milking" San Fernando Valley Wholesale Food Distributors, there was another conference attended by James Scribner, Connell and Dick Hamilton, counsel for Orange County Wholesale Food Distributors. [R. T. 153, 270.] Attorney Hamilton advised Scribner that San Fernando Valley Wholesale Food Distributors should pay the money it owed to Orange County Wholesale Food Distributors since people "could go to jail for things like this." James Scribner said that he did not have any money for Orange County Wholesale Food Distributors but "if he ever had to go to jail his family wouldn't be affected, that his wife wouldn't have to baby-sit or anything", since he had certain money buried. [R. T. 154-155, 271-272.]

During the time period when appellant Butler had referred to the necessity of keeping San Fernando Valley Wholesale Food Distributors afloat to permit its "milking", Preferred Enterprises was formed and immediately (July and August of 1959) there was transferred to Preferred Enterprises over \$12,000 which originated in the sale by San Fernando Valley Wholesale Food Distributors of freezers and/or food contracts. These monies were derived when contracts were purchased by lending companies from San Fernando Valley Wholesale Food Distributors and checks in payment for

contracts purchased were issued payable to San Fernando Valley Wholesale Food Distributors. These checks were endorsed by San Fernando Valley Wholesale Food Distributors with a second endorsement of Preferred Enterprises, Inc., and were deposited to the bank account of Preferred Enterprises, Inc., at the Bank of Encino. [Exs. 1-A to 1-H; 1-P.] In addition, San Fernando Valley Wholesale Food Distributors made collections of some \$175 on a freezer and food contract sold to Dorothy Eagan, the payments from Mrs. Eagan being deposited to the bank account of Preferred Enterprises, Inc. [Exs. 8, 41, 42, 43, 44, 45, 46, 47, 48, 49.]

From these monies originating with San Fernando Valley Wholesale Food Distributors and subsequently transferred and deposited to the bank account of Preferred Enterprises, Inc., certain monies were transferred to the account of Taylor, Sherman and Heller.

On September 1, 1959, Preferred Enterprises drew a check against its bank account at the Bank of Encino, payable to Charles Taylor of Taylor, Sherman and Heller for \$10,000. [R. T. 335; Ex. 9.] The purpose shown is "Loan to San Fernando Wholesale Foods". [R. T. 335.] Preferred Enterprises, Inc., by letter dated September 1, 1959 [Ex. B] enclosed the cashier's check for \$10,000 to Charles B. Taylor. Preferred Enterprises' letter, among other things, instructed Taylor to issue a check to appellant Butler for \$4,050 and a check to Charles Scribner for \$2,500.

On September 1, 1959, a check was drawn on the Taylor, Sherman and Heller account to Eugene Butler for \$4,050. [Ex. 11; R. T. 337.] On September 9, 1959, a check was drawn on the account of Taylor, Sherman, and Heller to Eugene Butler for \$500. [Ex. 12; R. T. 337.]

The checks of Taylor, Sherman and Heller to Butler for \$4,050 and \$500 [Exs. 11, 12] and other checks issued by Taylor, Sherman and Heller [Exs. 13, 14, 15, 16, 17] were honored on September 10, 1959 to purchase a cashier's check for \$4,500 and a cashier's check for \$329.20 [Exs. 19, 20, 21], payable to Eugene Butler, issued by Citizens National Bank. The cashier's check for \$4,500 [Ex. 20] obtained by Eugene Butler on September 10, 1959, was used on November 2, 1959, to purchase 3 cashier's checks for \$1,000 each, one cashier's check for \$500 and \$1,000 in cash was obtained by Eugene Butler [Exs. 22, 23, 24, 25, 26; R. T. 339] at Bank of America, Sepulveda and Devonshire Branch. All cashier's checks [Exs. 23, 24, 25, 26] were payable to and negotiated by Eugene Butler [R. T. 339] and used for his personal expenses. [R. T. 323, 324.]

On September 1, 1959, pursuant to appellant's instructions a check No. 131 [Ex. 13] payable to Charles E. Scribner for \$2,520.42 was issued on the account of Taylor, Sherman and Heller, San Fernando account, by Charles B. Taylor. This check bears the endorsement of Charles B. Scribner with a second endorsement of James Scribner and was negotiated at Branch 386, of the Bank of America on September 3, 1959.

After deciding to place San Fernando Valley Wholesale Food Distributors in bankruptcy, appellants Butler and Scribner agreed to withdraw the remaining funds from the bank account of Preferred Enterprises, Inc.—some \$4,800—each man receiving \$2,400. In addition, they agreed that Eugene Butler would take over Preferred Enterprises, Inc., and that James Scribner would take charge of San Fernando Valley Wholesale Food

Distributors and Ventura County Wholesale Food Distributors [R. T. 315-319.] Pursuant to the arrangement between Eugene Butler and James Scribner, Butler on September 4, 1959, wrote a check for \$4,800 on the account of Preferred Enterprises, Inc., at the Bank of Encino. With this \$4,800 check he made application to the Bank of Encino for two cashier's checks. One was payable to James Scribner for \$2,400 and one was payable to Eugene Butler for \$2,400 [Exs. 9, 27, 28, 29.] Butler admitted he used his \$2,400 for personal expenses. [R. T. 323, 324.]

Butler and Scribner contend that Preferred Enterprises, Inc., purchased accounts receivable from San Fernando Valley Wholesale Food Distributors and that payment was made to San Fernando Valley Wholesale Food Distributors for the receivables purchased. The only funds available to Preferred Enterprises were "bonus" checks issued by San Fernando Valley Wholesale Food Distributors to Butler and Scribner in the amount of \$3,000 each and "loan repayment" checks issued by San Fernando Valley Wholesale Food Distributors to Butler and Scribner in the amount of \$1,400 each. These checks were endorsed by Butler and Scribner with a second endorsement of Preferred Enterprises, Inc., and a third endorsement of San Fernando Valley Wholesale Food Distributors. These checks were then deposited by San Fernando Valley Wholesale Food Distributors to its bank account. At the time these checks were issued no funds were on deposit in the account of San Fernando Valley Wholesale Food Distributors to cover the checks. No funds were received from Preferred Enterprises, Inc., by San Fernando Valley Wholesale Food Distributors. In effect what occurred

was that \$8,800 in checks were written on San Fernando Valley Wholesale Distributors account by appellants Butler and Scribner, there being no money in San Fernando Valley Wholesale Distributors' account to cover these checks. [R. T. 640.] Then Butler and Scribner endorsed the checks to Preferred Enterprises. The checks were not deposited to Preferred Enterprises' account but were merely endorsed back to the same account—San Fernando Valley Wholesale Food Distributors—they were originally issued on [R. T. 604, 624, 525.] In return for this transaction where no funds of any kind moved, appellants transferred to Preferred Enterprises some \$12,000 obtained when San Fernando Valley Wholesale Food Distributors sold contracts to finance companies covering freezer sales made by San Fernando Valley Wholesale Food Distributors prior to bankruptcy.

As previously indicated Ventury County Wholesale Food Distributors was formed some two to three months prior to the time appellants filed San Fernando Valley Wholesale Food Distributors' voluntary petition in bankruptcy. The corporation was purportedly formed to permit the sale of freezers in the Ventury County area. However, the record indicates that prior to Ventura County Wholesale Food Distributors formation, San Fernando Valley Wholesale Food Distributors was selling freezers in the Ventura County area as well as in the San Fernando Valley area and had Orange County Wholesale Food Distributors' permission to make such sales. [R. T. 521.] In fact, as appellant Butler stated "we made sales any place we could make them . . . regardless of area." [R. T. 521.] All freezers Ventura County Wholesale Food Distributors had any

contact with went from Orange County Wholesale Food Distributors to San Fernando Valley Wholesale Food Distributors, all financing arrangements handled pursuant to an agreement between San Fernando Wholesale Food Distributors, Orange County Wholesale Food Distributors and the finance company. [R. T. 525.] Orange County Wholesale Food Distributors was subject to recourse on these agreements with the finance company in case of a repossession and San Fernando Valley Wholesale Food Distributors was also subject to necessity of making certain payments in case there was a repossession on one of their freezers. [R. T. 526.] In addition, Ventura County Wholesale Food Distributors did not have any facilities to store freezers. [R. T. 524.] While San Fernando Valley Wholesale Food Distributors obtained a franchise agreement from Orange County Wholesale Food Distributors to permit its freezer sales, Ventura County Wholesale Food Distributors never obtained any franchise agreement from Orange County. [R. T. 535-536, 646.]

San Fernando Valley Wholesale Food Distributors sold four contracts covering freezer sales to Public Finance Corporation. Public Finance checks dated September 8, and September 14, 1959 and totalling \$649.60 were issued payable to San Fernando Valley Wholesale Food Distributors [Ex. 1-Q, 1-R.] These checks were endorsed "pay to the order of Ventura County Wholesale Food, J. Scribner", [Ex. 1-Q, 1-R.]

On Labor Day of 1959 a meeting was held in the law offices of Taylor, Sherman and Heller. Present were Taylor, James Scribner, Eugene Butler, Connell, Jarman, Hamilton (counsel for Orange County Wholesale Food

Distributors) and Mr. Borak (a member of the accounting firm that examined the books of San Fernando Valley Wholesale Food Distributors) [R. T. 155, 274.] The purpose of the meeting was to determine whether San Fernando Valley Wholesale Food Distributors could stay in business. James Scribner and Eugene Butler maintained that they could make a go of the business and the representatives of Orange County Wholesale Food Distributors went along with them [R. T. 156.] An arrangement was made whereby when San Fernando Valley Wholesale Food Distributors made a sale, Orange County Wholesale Food Distributors would send them part of their commission and send another part to a Mr. Taylor, who would create a fund to be used in settling with any creditors who were pressing San Fernando Valley Wholesale Food Distributors [R. T. 156, 274.]

Orange County Wholesale Food Distributors was anxious to keep San Fernando Valley Wholesale Food Distributors in business and offered to be San Fernando Valley Wholesale Food Distributors' last creditor to be satisfied since if San Fernando Valley Wholesale Food Distributors went out of business, Orange County Wholesale Food Distributors had outstanding a million dollars worth of paper for which they would be responsible. [R. T. 156, 274.]

The day before appellants Butler and Scribner voluntarily placed San Fernando Valley Wholesale Food Distributors in bankruptcy James Scribner sold a 1959 Thunderbird owned by San Fernando Valley Wholesale Food Distributors. The balance owed on this car was paid off by the purchasers. San Fernando Valley Wholesale Food Distributors' equity in this car, some

\$900, was paid to James Scribner in cash. [R. T. 63, 64, 66, 70, 71, 72, 319, 320.]

San Fernando Valley Wholesale Food Distributors filed a voluntary petition in bankruptcy on September 17, 1959 [Ex. 2; R. T. 9, 160.] On September 17, 1959, an order for appointment of Receiver George Gardner was filed [Ex. 3; R. T. 10] and on September 18th the receiver's bond was approved [Ex. 4; R. T. 10.] San Fernando Valley Wholesale Food Distributors was adjudicated a bankrupt on September 23, 1959 [Ex. 7; R. T. 12.] On approximately September 24, 1959, Orange County Wholesale Food Distributors posted a \$10,000 bond with the bankruptcy court and took over the business formerly run by San Fernando Valley Wholesale Food Distributors.

Orange County Wholesale Food Distributors issued a check dated September 14, 1959 payable to San Fernando Valley Wholesale Food Distributors for commissions on two freezers sold by San Fernando Valley Wholesale Food Distributors [Ex. 96; R. T. 165, 166.] The check was endorsed San Fernando Wholesale Food Distributors, San Fernando Valley Locker Service, then by James Scribner [Ex. 96: R. T. 165.]

On September 18, 1959, the day following the filing of the voluntary petition in bankruptcy by San Fernando Valley Wholesale Distributors, James Scribner asked Jarman to make checks for the sales by San Fernando Valley Wholesale Food Distributors on Orange County Wholesale Food Distributors freezers payable to him and not to make the checks out to San Fernando Valley Wholesale Food Distributors. James Scribner stated he did not want the money to "get involved in the bankruptcy so he could have the money."

James Scribner stated that if Orange County Wholesale Food Distributors made the checks payable to San Fernando Valley Wholesale Food Distributors, he could not get the money. [R. T. 164, 220-221.]

Pursuant to Scribner's instructions to Jarman, Orange County Wholesale Food Distributors checks for \$847.18 [Ex. 92], \$1,123.70 [Ex. 79], \$485.60 [Ex. 80] were issued by Orange County Wholesale Food Distributors payable to James Scribner for sales of freezers made by San Fernando Valley Wholesale Food Distributors before San Fernando Valley Wholesale Food Distributors went into bankruptcy and after it had obtained an actual contract between itself and the prospective customer. [Exs. 79, 80, 92; R. T. 162, 163.] Delivery of the freezers by Orange County Wholesale Food Distributors was not made until a contract of sale was obtained by San Fernando Valley Wholesale Food Distributors from the prospective customers. [R. T. 162, 163.]

On September 18, 1959, Jack Jarman issued check No. 11431 for \$847.18 on the account of Orange County Wholesale Food Distributors. [Ex. 92.] This check is endorsed "James Scribner, S. F. Locker Service James Scribner" and was negotiated at Branch 386 of the Bank of America on September 21, 1959. Orange County Wholesale Food Distributors check [Ex. 92] was to pay commissions due San Fernando Valley Wholesale Food Distributors for freezers sold by San Fernando Valley Wholesale Food Distributors on which contracts had been sold and payment made by finance companies to Orange County Wholesale Food Distributors by checks dated September 18, 1959. [Exs. 93, 94.]

Commissions due San Fernando Valley Wholesale Food Distributors on these sales all made prior to bankruptcy were computed by Jarman as \$847.18. [Ex. 95.] The following deliveries all prior to bankruptcy, were made by Orange County Wholesale Food Distributors of freezers sold by San Fernando Valley Wholesale Food Distributors on which commissions were paid to James Scribner by check of Orange County Wholesale Food Distributors for \$847.18 [Ex. 92] as follows:

Roth on Sept. 15, 1959, #267313. [Ex. 99.]

Glen on Sept. 17, 1959, #265547. [Ex. 107.]

Ortiz on Sept. 15, 1959, #265388. [Ex. 99.]

Pittman on March 8, 1959, #83660. [Ex. 110.]

Katz on August 18, 1959, #251865. [Ex. 101.]

Jackson on Sept. 15, 1959, #270326. [Ex. 99.]

Omon on Sept. 17, 1959, #270286. [Ex. 107.]

On September 25, 1959, Orange County Wholesale Food Distributors issued check #11437 payable to James Scribner for \$1,123.70. [Ex. 79.] This check is endorsed "James Scribner pay to San Fernando Valley Locker Service James Scribner". It was negotiated at Branch 386 of the Bank of America on September 25, 1959. It was in payment of freezers sold by San Fernando Valley Wholesale Food Distributors [Exs. 89, 90] prior to bankruptcy.

On contracts sold by San Fernando Valley Wholesale Food Distributors on which Orange County Wholesale Food Distributors paid commissions to James Scribner by check for \$1,123.70 dated September 25, 1959 [Ex.

79] deliveries by Orange County Wholesale Food Distributors all prior to bankruptcy, were as follows:

Revitto on Sept. 17, 1959, #88267. [Ex. 107.]

Lindeman on Sept. 17, 1959, #88228. [Ex. 107.]

Ruggier on Sept. 17, 1959, #267069. [Ex. 107.]

Ward on July 28, 1959, #266520. [Ex. 109.]

Salinas on Sept. 17, 1959, #88188. [Ex. 107.]

On September 30, 1959, Orange County Wholesale Food Distributors issued check No. 11473, payable to James Scribner for \$485.60. [Ex. 80.] This check is endorsed "James Scribner San Fernando Valley Locker Service James Scribner". It was negotiated at Branch 386 of Bank of America on September 30, 1959. It was in payment of commissions on freezers sold by San Fernando Valley Wholesale Food Distributors. It was in payment of last sales made prior to Orange County Wholesale Food Distributors coming in after bankruptcy. [Ex. 91.]

On contracts sold by San Fernando Valley Wholesale Food Distributors on which Orange County Wholesale Food Distributors paid commissions to James Scribner by check for \$485.60 dated September 30, 1959 [Ex. 80] deliveries by Orange County Wholesale Food Distributors were as follows:

Labor on Sept. 23, 1959, #154125. [Ex. 104.]

Robinson on Sept. 28, 1959, #88307. [Ex. 102.]

The Robinson, referred to above, testified as a Government witness at the trial, establishing that his contract with San Fernando Valley Wholesale Food Distributors was not only dated September 15, 1959 [Ex. 62], but that his down payment was made by check dated September 15, 1959. [Ex. 61.]

The record also contains the testimony of certain Government witnesses who had entered into contractual relations with and supplied monies to San Fernando Valley Wholesale Food Distributors prior to bankruptcy. The record discloses after San Fernando Valley Wholesale Food Distributors filed their voluntary petition in bankruptcy on September 17, 1959, certain monies owing the bankrupt corporation were diverted to other corporations owned or controlled by appellants. The following summary of the testimony and exhibits of witnesses Eagan, Barry and Robinson are offered in this regard.

On April 4, 1959, Mrs. Dorothy Eagan and her husband Walter purchased a freezer and certain food from San Fernando Valley Wholesale Food Distributors. T purchase was by an order signed on April 4, 1959 with San Fernando Valley Wholesale Food Distributors. The order was signed by Mrs. Eagan, her husband, and a Gene T. Davidson, salesman for San Fernando Valley Wholesale Food Distributors. [Exs. 37, 40; R. T. 82-83.]

Mrs. Eagan obligated herself to make 24 monthly payments of \$28.32 for the freezer after a down payment of \$60.35. The order also provided for 6 monthly food payments of \$36.64, thereby making the Eagan's monthly payments \$64.99. [R. T. 83.] Mrs. Eagan's down payment of \$60.35 was made by means of a promissory note dated April 4, 1959 to San Fernando Valley Wholesale Food Distributors and signed by her husband and herself. [Ex. 40.]

On May 13, 1959 San Fernando Valley Wholesale Food Distributors acknowledged receipt from her of the down payment in the amount of \$60.35. The down payment was made by postal money order purchased

by Mrs. Eagan on May 9, 1959 in the amount of \$60.35 by which she paid the above mentioned promissory note. [Exs. 39; 39A.] The receipt of Mrs. Eagan's food and freezer payments of \$36.67 and \$28.32 respectively received by San Fernando Valley Wholesale Food Distributors on June 24, 1959 was acknowledged by San Fernando Valley Wholesale Food Distributors in a letter signed by Eugene Butler dated July 11, 1959. [Exs. 41, 42, 43.] The receipt of Mrs. Eagan's food payment of \$366.67 and freezer payment of \$28.32 [U. S. postal money order 12-78,754,886 in the amount of \$64.99—Govt. Ex. 44] received by San Fernando Valley Wholesale Food Distributors on July 22, 1959 was acknowledged by San Fernando Valley Wholesale Food Distributors in a letter dated July 30, 1959, signed by Eugene Butler. [Ex. 45.]

The receipt of Mrs. Eagan's food payment of \$36.67 and freezer payment of \$28.32 [3 money orders \$36.67, \$10.00 and \$18.32 respectively—Govt. Exs. 46; 47; 48] was acknowledged by San Fernando Valley Wholesale Food Distributors in a letter dated August 20, 1959 signed by Eugene Butler. [Ex. 49.]

After bankruptcy James Scribner wrote Mrs. Eagan a letter [Govt. Ex. 54—envelope postmarked November 2, 1959; Ex. 60] requesting her to send her payments in the future to Ventura County Wholesale Food Distributors, 263 Wagon Wheel Road, Oxnard, California, and also informing her that the necessary payment books to bring her records current would be forwarded. [Ex. 55.] On approximately December 14, 1959 Mrs. Eagan received an envelope bearing the return address of Ventura County Wholesale Food Distributors, Box 203, Oxnard, California. The envelope

contained a payment book reflecting that 30 payments at \$28.32 with the terms under this account. The book is dated December 14, 1959 and contains the notation 7 payments made to date, balance due 23 payments, food paid in full. [Ex. 58.]

Mrs. Eagan produced stubs covering payments she made per James Scribner's instructions to Ventura County Wholesale Food Distributors, the food and freezer contract she had entered into previously with San Fernando Valley Wholesale Food Distributors. Mrs. Eagan produced stubs covering payments made by her on the food and freezer contracts as follows: No. 12-1624,361 in the amount of \$64.99 purchased on October 7, 1959. [Ex. 50.] 12-1625,814 in the amount of \$64.99 purchased by her on November 9, 1959. [Ex. 51.] No. 12-4,006,640 in the amount of \$64.99 purchased November 20, 1959. [Ex. 52.] No. 12-3,962,309 in the amount of \$28.32 purchased December 5, 1959. [Ex. 53.]

In addition Mrs. Eagan on February 23, 1960, sent Ventura County Wholesale Food Distributors, 263 Wagon Wheel Road, Oxnard, Box 203 an envelope covering a freezer payment which envelope was returned to her stamped with the notation "Moved—left no address." [Ex. 59.]

On September 15, 1959, Donald Robinson entered an order with San Fernando Valley Wholesale Food Distributors for the purchase of a freezer. Robinson's contract with San Fernando Valley Food Distributors called for a down payment of \$25 and 36 monthly payments at \$22.93 each. In addition to the \$22.93 in monthly payments the order provides that food payments not to exceed \$44 were to be made monthly for a

total monthly payment of \$66.93. The order is signed by Donald Robinson and Barbara J. Robinson and Irwin Ellis, salesman for San Fernando Valley Wholesale Food Distributors. [Ex. 62.] On September 15, 1959, Barbara Robinson drew a check on her account at the Bank of America payable to San Fernando Valley Wholesale Food Distributors in the amount of \$25 and handed the check to Ellis, San Fernando Valley Wholesale Food Distributors salesman. [Ex. 61.] The check bears the endorsement of San Fernando Valley Wholesale Food Distributors with the second endorsement of James Scribner and a third endorsement San Fernando Valley Locker Service by Louise Scribner. The check was deposited on December 17, 1959, Branch 386 Bank of America.

On May 1, 1959, Doreen N. Barry and her husband purchased a freezer from San Fernando Valley Wholesale Food Distributors. The Barrys' obligated themselves to make a cash down payment of \$60.35 of which \$1.35 had been paid as well as obligated themselves to make 30 monthly freezer payments in the amount of \$23.40 each. In addition the Barrys' agreed to make food payments not to exceed 6 months duration of \$44.00 per month. [Govt. Ex. 63; R. T. 110.] Mrs. Barry hand carried food and freezer payments to San Fernando Valley Wholesale Food Distributor office, upstairs on Friar Street in Van Nuys on approximately May 29, 1959, in the amount of \$67.40; on June 26 in the amount of \$67.40; on July 24 in the amount

of \$67.40. San Fernando Valley Wholesale Food Distributors furnished Mrs. Barry with receipts for these payments. [Exs. 65, 66, 67.] In addition on September 13, 1959 Mrs. Barry received a receipt from San Fernando Valley Wholesale Food Distributors acknowledging Mrs. Barry's payment of \$67.40 for payment of freezer and food; the receipt containing the initials G.B. [Exs. 68, 71.] On October 2, 1959 Mrs. Barry continued to make her payments to the same geographical location however her October payment for \$67.40 for the food and freezer purchased from San Fernando Valley Wholesale Food Distributors was acknowledged by a receipt signed by Gold Shield Service by Jeannie Smith. [Ex. 69.] On October 20, 1959, Mrs. Barry received a receipt for freezer payment in the amount of \$23.40, receipt signed by Jeannie Smith. [Ex. 70.] On November 30, 1959, Mrs. Barry made her November freezer payment of \$23.40 by a personal money order dated that day, the payee of which was James Scribner. [Exs. 72; 75, 76.]

On January 12, 1960, Barry sent a check in the amount of \$23.40 by handy mailing check to Scribner [Ex. 74] covering the payment by him on the freezer he purchased from San Fernando Valley Wholesale Food Distributors.

Barry's payments for freezer were made to Scribner at his home in Sherman Oaks at Scribner's request. [R. T. 112, 113.]

V.

ARGUMENT.

A. This Court Has No Jurisdiction to Review the District Court's Order Denying Motion for New Trial Since Appellants Did Not File a Notice of Appeal as Required by the Federal Rules of Criminal Procedure.

On March 1, 1962, approximately one year after filing a notice of appeal from the judgment of conviction, appellants filed a motion for new trial based on newly discovered evidence. On April 16, 1962, the trial judge denied their motion for new trial. Appellants did not take an appeal from the order denying the motion for new trial. Appellants are now attempting to obtain a review of the April 16, 1962 order denying their motion for new trial based on the notice of appeal from the judgment of conviction filed on May 8, 1961.

Filing of a notice of appeal is required by Rule 37 of the Federal Rules of Criminal Procedure, Title 18, United States Code and is mandatory and jurisdictional.

Brant v. United States, 210 F. 2d 470 (5th Cir. 1954);

United States v. Robinson, 361 U. S. 220 (1960);

Crow v. United States, 203 F. 2d 670 (9th Cir. 1953);

Huff v. United States, 192 F. 2d 911 (5th Cir. 1951), cert. den. 62 S. Ct. 560;

United States v. Bloom, 164 F. 2d 556 (2nd Cir. 1947), cert. den. 68 S. Ct. 726.

Therefore, this Court is without jurisdiction to review the District Court order denying the motion for new trial.

**B. The Trial Court Did Not Abuse Its Discretion
in Denying the Motion for New Trial.**

Assuming for the purposes of this argument that the defendants' motion for new trial may properly be heard at this time, this court can reach no decision other than that the trial court did not abuse its discretion in denying the motion for new trial.

The requirements for a motion for new trial based on newly discovered evidence have been clearly established in this Circuit and are as follows:

1. The evidence must be newly discovered after trial;
2. The defendant must show that there has been due diligence on his part;
3. The evidence must be more than merely cumulative or impeaching;
4. The evidence must be material to the issue;
5. The evidence must be such as would probably produce an acquittal.

Gallegos, et al. v. United States, 295 F. 2d 879 (9th Cir. 1961);

Pitts v. United States, 263 F. 2d 808 (9th Cir. 1959), cert. den. 360 U. S. 919;

Brandon v. United States, 190 F. 2d 175 (9th Cir. 1951);

Wagner v. United States, 118 F. 2d 801 (9th Cir. 1941).

A motion for new trial based on newly discovered evidence is addressed to the sound discretion of the trial judge. *Adams v. United States*, 191 F. 2d 206 (9th Cir. 1951); *Casey v. United States*, 20 F. 2d 752 (9th

Cir. 1927). The trial judge in determining the impact of newly discovered evidence may “utilize the knowledge he gained from presiding at the trial as well as the showing on the motion.” *United States v. On Lee*, 201 F. 2d 722, 723 (2nd Cir. 1953), cert. den. 345 U. S. 936. Therefore, it is clear that this Court, only having an opportunity to review the cold record, should be very hesitant to reverse the learned trial judge who had an opportunity to hear the testimony, scrutinize the witnesses, and note their demeanor and behavior on the witness stand.

A review of the appellants’ motion for new trial clearly shows that the “evidence” is not sufficient to grant a new trial.

Aside from the appellants’ bald statement, they do not present any facts to indicate that this evidence was newly discovered *after trial* [emphasis added]. Further the appellants make no showing of due diligence on their part.

The appellants were fully apprised of the items of property covered by the allegations of the defendant. The appellants do not claim surprise that Mr. Jarman and Mr. Connell testified as witnesses on behalf of the Government, appellants merely claim that they were surprised at the substance of the testimony. But then, of course, probably every defendant in every criminal case could claim surprise at the substance of the testimony presented by the Government when it is discovered that witnesses are willing to relate the criminal transactions of the defendant.

Appellants offer eight affidavits which they assert are “newly discovered.” [C. T. 139-142.] Appellant’s claim is clearly controverted by the facts. Four of the

affiants were defense witnesses in the trial of this case. [R. T. 566, 576, 582, 585.] The remaining affidavits show that each affiant was well acquainted with the appellants prior to the time of trial. Clearly their testimony was certainly accessible to the appellants prior to and during the trial.

On the basis of the above, the Government would submit that appellants' affidavits are not "newly discovered evidence" and further that appellants made no showing of due diligence to explain why the individuals themselves, who submitted affidavits only after the jury had found appellants guilty as charged, could not have been presented as witnesses at the time of trial.

Regardless of the fact that appellants have not submitted "newly discovered evidence" or show due diligence, the appellants' affidavits at most are merely cumulative or impeaching and therefore also not reasons for the granting of a new trial.

The allegations contained in the affidavit offer to support the motion for new trial, substantially parallel to the testimony of each of the appellants given at the time of this case. Thus, the only relevance of this "newly discovered evidence" is to corroborate the testimony offered by each of the appellants and in the second instance to impeach the testimony offered by two of the government's witnesses. In *Balestreri v. United States*, 224 F. 2d 915 (9th Cir. 1955), the defendant moved for a new trial on the basis of newly discovered evidence which indicated that the testimony of the government's sole witness had been induced by threats, promises and favors. This court held that such evidence was merely impeaching and not sufficient reason to grant a new trial.

In *Daniel Roy Perez v. United States*, 297 F. 2d 649 (9th Cir. 1961), this court held that the proposed new evidence offered on defendant's motion for new trial was an attempt to impeach the government's identifying witness and since the value of this new evidence was solely for impeachment, it was not a sufficient reason to grant a new trial.

The appellee would, therefore, submit that since the newly discovered evidence offered by appellant is merely an attempt to show the falsity of testimony given by government witnesses and to corroborate the testimony given by the appellants at the trial of this case, such evidence is merely cumulative and impeaching and not a sufficient reason to grant a new trial. *Pitts v. United States, supra*; *Morgan v. United States*, 301 F. 2d 272 (9th Cir. 1962).

In addition to the above arguments, it should be noted that appellants only seek to impeach the testimony of two of some thirteen Government witnesses called at the trial. The testimony of the two witnesses did not bear in any way on San Fernando Wholesale Foods' transfer of thousands of dollars to Preferred Enterprises immediately prior to bankruptcy in what the jury undoubtedly believed was a fictitious transaction designed as a vehicle to get money from San Fernando into the pockets of appellants. Therefore it is respectfully submitted that the affidavits offered by appellants are not "new evidence" which would produce a different result in a new trial. *Bisno v. United States*, 299 F. 2d 711 (9th Cir. 1961); *Edwards v. United States*, 265 F. 2d 302 (9th Cir. 1959).

C. The Evidence Is Sufficient to Sustain the Jury's Finding That Appellants Were Guilty as Charged in the Indictment.

The Government respectfully submits that the evidence is sufficient to sustain the jury's verdict. Especially is this true when this Court as it must consider the evidence and inferences that can be drawn from it most favorably to the Government.

Glasser v. United States, 315 U. S. 60 (1941);

Sandez v. United States, 239 F. 2d 239 (9th Cir. 1956);

Robinson v. United States, 26 F. 2d 645 (9th Cir. 1959);

Young v. United States, 298 F. 2d 108 (9th Cir. 1962);

Benchwick v. United States, 297 F. 2d 330 (9th Cir. 1961).

The Government will not dwell on the fact that this Court is loath to substitute its judgment for that of the trier of fact in resolving facts which are in dispute. It is felt sufficient to indicate that the credibility of witnesses and the weight to attach to their testimony is certainly a matter within the province of the trial court who has had the opportunity to see and hear the witnesses.

Stopelli v. United States, 183 F. 2d 391 (9th Cir. 1950);

Norfolk v. McKenzie, 116 F. 2d 632 (6th Cir. 1941).

Appellee submits that the evidence as indicated in the Statement of Facts clearly indicates that the evidence presented was sufficient to sustain the jury's verdict.

D. The Court Did Not Deny Appellants Due Process by Trying the Case Expeditiously.

Appellants contend that the rapidity and length of the trial days prejudiced them so as to deny them due process. In the five day trial of this case it is to be noted that there is only one trial date that ran into the evening hours. On April 27, 1961, the trial day commenced at 9:15 A.M. and continued to 10:05 P.M. [C. T. 98.] It is to be noted that during the April 27, 1961 trial date, the court afforded approximately six hours total in recesses.

Appellee would submit that this argument is spurious. Courts do not deny due process just because they act expeditiously. The law's delay is the lament of society. A reading of the minutes of each trial day reveals that the appellants are attempting to conjure up an error. [C. T. 77-104.]

In *United States v. Nierstheimer*, 166 F. 2d 87 (7th Cir. 1948), the appellant raised as error the rapidity of the trial. The facts involved were that the appellant was "indicted, counsel was appointed to defend him, he was arraigned, tried and convicted in a capital case all in one day." The Circuit held that such expeditiousness did not deny him due process.

VI.

Conclusion.

On the basis of the above recited facts, it is respectively submitted that the trial court did not abuse its discretion in not granting appellants' motion for a judgment of acquittal after the return of the jury's verdict and in denying appellants' motion for a new trial.

Respectfully submitted,

FRANCIS C. WHELAN,
United States Attorney,

THOMAS R. SHERIDAN,
*Assistant United States Attorney,
Chief, Criminal Section,*

EDWARD M. MEDVENE,
Assistant United States Attorney,

JO ANN DUNNE,
Attorneys for Appellee.

No. 17417

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

EUGENE OLIVER BUTLER and JAMES G. SCRIBNER,
Appellants,

vs.

UNITED STATES OF AMERICA,
Appellee.

Certificate.

I certify that, in connection with the preparation of this Brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

FRANCIS C. WHELAN
United States Attorney

THOMAS R. SHERIDAN
*Assistant United States Attorney
Chief, Criminal Section*

/s/ EDWARD M. MEDVENE
EDWARD M. MEDVENE
*Assistant United States Attorney,
Attorneys for Appellee,
United States of America*

IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT.

JAN EMIL DONATO,

Appellant,

VS.

UNITED STATES OF AMERICA,

Appellee.

No. 17473.

APPELLANT'S OPENING BRIEF.

J. B. TIETZ,

410 Douglas Building,

South Spring and Third Streets,

Los Angeles 12, California,

Attorney for Appellant.

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IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT.

JAN EMIL DONATO,			
	<i>Appellant,</i>	}	
vs.			
UNITED STATES OF AMERICA,			
	<i>Appellee.</i>	}	No. 17473.

APPELLANT'S OPENING BRIEF.

JURISDICTION.

This is an appeal from a judgment rendered and entered by the United States District Court for the Southern District of California, Central Division. The appellant was sentenced to custody of the Attorney General for a period of three years [R. 5].¹ Title 18, Section 3231, United States Code confers jurisdiction in the district court over the prosecution of this case. This Court has jurisdiction of this appeal under Rule 27(a) (1) and (2) of the Federal Rules of Criminal Procedure. The Notice of Appeal was filed in the time and manner required by law [R. 6].

1. R. refers to the ~~printed~~ Transcript of Record.

STATEMENT OF THE CASE.

Appellant was indicted under U.S.C., Title 50, App. Sec. 462 (Universal Military Training and Service Act) for refusing to submit to induction [R. 2].

Appellant pleaded Not Guilty, waived jury trial and was thereafter tried and convicted on May 1, 1961 [R. 4], by Judge William M. Byrne. Appellant was sentenced on May 22, 1961 [R. 5].

At the close of the evidence, a Motion for Judgment of Acquittal was made, argued, and denied [T. 36].²

THE FACTS.

Appellant registered with California Local Board No. 85 on January 18, 1955 [Ex. 1-2].³

Thereafter he timely filed the standard eight page Classification Questionnaire on February 21, 1955 [Ex. 5-12]. In it he showed he was one of Jehovah's witnesses, was a minister of religion, regularly serving as such and had been formally ordained [Ex. 7]. He also showed he was a full-time student at Glendale High School [Ex. 10] and that he was a conscientious objector to participation in warfare [Ex. 11]. He advanced no opinion, at the place provided, concerning the classification he deemed proper to his factual status [Ex. 11, below 7.]

2. T. refers to Reporter's Transcript of Proceedings.

3. Ex. refers to a photocopy of the Government's exhibit (the selective service file of appellant) admitted in evidence by stipulation. The pagination is pencilled at the bottom of each sheet of the exhibit.

Thereafter he timely filed the four page Special Form for Conscientious Objector on March 3, 1955 [Ex. 13]. In it he showed he was opposed to participation in warfare by reason of religious training and belief and that this was in relation to his belief in a Supreme Being [Ex. 13]. He gave scriptural authority to support his statements and reasoning [Ex. 13 (a)]. He explained the part his home teachings had played, he submitted the name and address of a leader of the witnesses in response to the question [#4] upon whom he relied most for religious guidance; he answered question #5 (Under what circumstances, if any, do you believe in the use of force?) as follows: "I believe in using force in protecting my home against crime or violence, my scriptural reference is in Exodus 22:2." [Ex. 14].

He related his studies and religious activities and how he gave public expression to his views. He gave all details requested of his schooling and employment going back to 1942 [Ex. 14].

He gave the Selective Service System further opportunity for checking the details of his showing by giving at question (#6) all residence addresses since 1937 [Ex. 15].

He showed he was a member of a recognized religious organization, gave its national headquarters address and his local church and local leader and answered all other questions propounded [Ex. 15], including the names and addresses of references using all the spaces provided [Ex. 16]. He appended a letter of even date from the

head of the Ministry School of his group attesting to his sincerity [Ex. 15 (a)].

There is no evidence in the file to rebut his *prima facie* case for one of the two conscientious objector classifications.

Nevertheless, the local board, after having plenty of time to check his statements and enter its findings in the file concerning such a check-up [it did not classify him until thirty-five months later, February 19, 1958] classified him Class 1-A (Available for Military Service, § 1622.10, 32 C.F.R.) [Ex. 12].

Thereafter, on July 13, 1960, appellant had an Appearance Before Local Board. A summary of said meeting was prepared and filed by the local board [Ex. 29]. This summary shows the positions of both the appellant and of the board: appellant frankly volunteered that he understood his ministry activity did not meet the ministry classification standards of the Selective Service System and stated "I think I should have a 1-O which is the conscientious objector." [Ex. 29].

The local board's position was that it would not change its classification after learning the following:

1. He would not "go to work if ordered as a 1-O" [Ex. 29].
2. He would protect his relatives in their homes against enemies [Ex. 29].

In court he complained of the accuracy of the summary's account by testifying that the following was the actual statement made by him:

"I was asked by the Board what I would do in the case of an enemy attack, and for example say my parents, my father and mother were in need of help, they wanted to know if I would protect them. I told them if my father and mother were under my roof, under my support, I would feel it my duty to protect them from any violence of any kind." [T. 29].

We will argue that this self-defense view is approved and does not disqualify the registrant for a conscientious objector classification.

He did not take an appeal for reasons that were related in his testimony; this subject will be argued in our closing brief if appellee raises an issue on it.

Thereafter he was ordered to report for induction and, after going through all the procedures at the induction station refused to submit to induction.

QUESTIONS PRESENTED AND HOW RAISED.

All questions here presented were raised by the Motion for Judgment of Acquittal, timely made and renewed [T. 27, 35].

I

Appellant presented written and oral evidence to his board that he was a conscientious objector. He was not so classified.

The question presented is: Was there a basis in fact for denying him one of the two conscientious objector classifications?

II

The Selective Service File shows that the board was concerned with "clarifying" information in his file and invited him in for an Appearance Before Board for this purpose [Ex. 28].

At said Appearance, which resulted in no different classification, the board revealed the subjects of its concern, and, we will argue, thus revealed the bases for its classifying action.

The question presented is: Were these legitimate bases?

SPECIFICATION OF ERRORS.

I

The district court erred in failing to grant the Motion for Judgment of Acquittal.

SUMMARY OF ARGUMENT.

I

The appellant made out a *prima facie* case for at least one of the conscientious objector classifications. Nothing exists in the file to contradict it nor to impeach his sincerity or veracity.

Therefore, no basis in fact exists for denying him one of these classifications consequently, the 1-A classification, and the order thereon to report for induction were invalid and a not guilty judgment was required.

II

Appellant's claim for a conscientious objector classification was rejected by reason of and through the use of illegal standards, in that none of the standards used is authorized by law or reason.

ARGUMENT.

I.

**No Basis in Fact Is Present to Support the Denial of
a Conscientious Objector Classification.**

The attitude of the Selective Service System and of the court below, concerning whether there was a basis in fact for the classification was grounded upon error. To begin with, it ignores the doctrine of *Dickinson v. United States*, 346 U.S. 389 (1953). That decision requires that the board "[m]ust find and record affirmative evidence that he has misrepresented his case * * *"—346 U.S., pp. 396, 397, 399 (dissenting opinion.) This agency and court decisions below in Donato's case also ignore the doctrine of *Witmer v. United States*, 75 S. Ct. 392 (1955), wherein the yardstick of sincerity is made the law. Absent any finding recorded that questions it, the Dickinson doctrine controls. Also ignored are the teachings of *Ashauer v. U. S.*, (9th Cir., 1954) 217 F.2d 788, 791; *Blevins v. U. S.*, (9th Cir., 1954) 217 F.2d 506, 508; *Brown v. U. S.*, (9th Cir., 1954) 216 F.2d 258, 258; *Chernekov v. U. S.*, (9th Cir., 1955) 219 F.2d 721, 725; *Franks v. U. S.*, (9th Cir., 1954) 216 F.2d 266, 269; *Hacker v. U. S.*, (9th Cir., 1954) 216 F.2d 575, 576.

The Supreme Court, in Dickinson, refers to affirmative, adverse evidence and to its recordation. Here there was none. Both the draft board and, inferentially, the court below relied on bases that we will hereafter argue were illegal.

Congress says that a man is a conscientious objector if he (1) believes in a Supreme Being, (2) conscientiously opposes participation in the armed forces by combatant or noncombatant service, and (3) bases such objection on religious training and belief. The appellant concededly believed in a Supreme Being. He concededly opposed participation in the armed forces. He concededly based those objections on his religious training and belief.

The evidence submitted by the appellant established at least *prima facie*⁴ that he had sincere and deep-seated conscientious objections against participation in combatant and also noncombatant military service and that these objections were based on his "relation to a Supreme Being involving duties superior to those arising from any human relation." This material also showed that his belief was not in the least based on "political, sociological, or philosophical views, or a merely personal moral code"; that it was entirely based upon his religious training and belief.

In his first contact with his draft board (his Classification Questionnaire, an 8 page form, filed February 24,

4. The language of Dickinson is:

"But when the uncontroverted evidence supporting a registrant's claim places him *prima facie* within the statutory exemption, dismissal of the claim solely on the basis of suspicion and speculation is both contrary to the spirit of the Act and foreign to our concepts of justice.

"Reversed." (74 S. Ct. 152, 158).

1955), he declared he was a conscientious objector, by signing series XIV [Ex. 11]. On his Special Form for Conscientious Objector he went into considerable detail answering all of the questions propounded [Ex. 13-16]. No complaint was ever made by the board during the administrative processing, or by the prosecution during the trial, that he had failed to answer any pertinent question satisfactorily or had showed any reluctance or lack of frankness.

The Selective Service System raised no question (none is recorded) concerning the veracity of the petitioner. The question therefore is not one of fact, but is one of law; *Dickinson v. United States, supra*. The law and the facts in his file, at least *prima facie*, established that petitioner is a conscientious objector opposed to combatant and noncombatant service.

In sum: there is no adverse evidence concerning his veracity or sincerity.

This case presents a legal situation like that faced by the Fifth Circuit in *Williams v. United States*, 216 F.2d 350, wherein the Court said:

"The Supreme Court has simplified the duty of courts in cases of this kind. 'The task of the courts in cases such as this is to search the record for some affirmative evidence to support the local board's overt or implicit finding that a registrant has not painted a complete or accurate picture of his activities.' *Dickinson v. United States*, 340 U.S. 389, 74 S. Ct. 152, 157. The District Court stated that it found such evidence, but failed to state what it was. After a diligent search, we have found none." (351).

In view of the fact that there is no contradictory relevant evidence in the file, disputing appellant's statements as to his conscientious objections, and there is no question of veracity presented, the problem to be determined here by this Court, appellant repeats, is one of law rather than one of fact. The question to be determined is: Was the decision (that the evidence did not prove appellant was a conscientious objector opposed to both (or either) combatant and noncombatant military service) arbitrary, capricious and without basis in fact?

The undisputed documentary evidence in the file showed that the appellant was conscientiously opposed to participation in combatant and noncombatant military service. This showing brought him squarely within the statute and the regulation providing for classification as a conscientious objector. This entitled him to exemption from combatant and noncombatant military training and service.

At one time many courts were of the opinion that the boards were free to disbelieve anything and everything presented by a registrant. Some likened the registrant to a witness on the stand. This view, whatever merit it possessed became obsolete in draft cases with the advent of Dickinson; it flatly held that a *prima facie* case could not be ignored and, as interpreted by Mr. Justice Jackson and many courts since that the "boards must build a record." So what evidence was required of Donato further than that furnished by him? That he show he was perfect? This Court had held that a conscientious objector need not be a saint: "We are all children of Eve."

Cherneckoff v. United States, (9 Cir., 1955) 219 F.2d 721 at 724. The law did not require Donato to show his local board anything more. It was up to the board to make a showing if it could, to weaken or destroy his showing. The Supreme Court, in *Dickinson*, detailed the methods the board could use and the agencies of the government at its disposal to build a showing that he was a liar or a sham or had not painted a true picture.

It has been held by many courts of appeal that the rule laid down in *Dickinson v. United States*, *supra* (holding that if there is no contradiction of the documentary evidence showing exemption as a minister, there is no basis in fact for the classification), also applies in cases involving other claims:

Schuman v. United States, 9th Cir., 1953, 208 F.2d 801, 802, 804-05.

Weaver v. United States, 8th Cir., 1954, 210 F.2d 815, 822-823.

Taffs v. United States, 8th Cir., 1953, 208 F.2d 239, 331-332.

United States v. Hartman, 2d Cir., 1954, 209 F.2d 366, 368, 369-370.

Pine v. United States, 4th Cir., 1954, 212 F.2d 93, 96.

Jewell v. United States, 6th Cir., 1953, 308 F.2d 770, 771-772.

Jessen v. United States, 10th Cir., 1954, 212 F.2d 897, 900.

United States v. Close, 7th Cir., 1954, 215 F.2d 349.

United States v. Wilson, 7th Cir., 1954, 215 F.2d 443, 446.

Contra United States v. Simmons, 7th Cir., 1954, 213 F.2d 901.

Simmons was reversed by the Supreme Court on March 14, 1955, *Simmons v. United States*, 75 S. Ct. 397. The reversal was on other grounds, however, and it remained for *Witmer v. United States*, 75 S. Ct. 392, to nationally settle the point. In *Witmer*, it was held that the inconsistent statements and positions of the registrant, gave the Selective Service System a basis in fact for disbelieving his sincerity and denying his claim for a conscientious objector classification. The Court referred to the Department of Justice findings that *Witmer* had retreated from one deferred claim to another (for a total of three claimed statuses) and had made inconsistent statements, and had offered to contribute to the war effort (395).

Appellant Donato's file cannot be fairly charged with containing any of the above flaws. He was entitled to at least a I-A-O conscientious objector classification. That he might have turned it down, was no excuse for not giving it to him. See *Franks v. United States*, (9th Cir., 1954) 216 F.2d 266, 269.

In *Jessen v. United States*, (10th Cir., 1954) 212 F.2d 897, 900, after quoting from *Dickinson, supra*, the Court said:

"Here, the uncontroverted evidence supported the registrants claim that he was opposed to participation in war in any form. There was a complete absence of any impeaching or contradictory evidence. It follows that the classification made by the State Appeal Board was a nullity and that *Jessen* violated no law in refusing to submit to induction."

A conscientious objector believes, and governs his professions and conduct accordingly. The relevant evidence here is all on one side, Donato's. His veracity was never questioned.

Since there was no attack on Donato's veracity, the fact that his evidence is mostly his own is no detraction from his *prima facie* case:

"It is true that in the case at bar defendant's claim to deferment as a conscientious objector rests on his uncorroborated testimony. * * * However, if credible and sincere, a registrant's uncontradicted testimony, although uncorroborated, may not be disregarded." *United States v. Wilson*, (7th Cir., 1954) 215 F.2d 443, 447.

There must be an affirmative finding that his evidence lacked credibility. "It is hard to see how the board could have refused a deferment under the case of *Dickinson v. United States*, 346 U.S. 389, unless there was an affirmative finding that the evidence lacked credibility." *United States v. Williams*, No. 8917 Criminal, D. Conn., April 2, 1954, Judge J. Joseph Smith. And see *United States v. Peebles*, 7th Cir., 200 F.2d 114, 119 and cases cited. Also *Weaver v. United States*, (8th Cir.,) *supra*; *Jewell v. United States*, *supra*; *Hagaman v. United States*, (3d Cir.) 213 F.2d 86; *United States v. Izumihara*, D. Hawaii, 120 F. Supp. 36; *United States v. Close*, (7th Cir.) *supra*.

This subject was discussed by this Court in a case decided in 1954. In *Shepherd v. United States*, (9th Cir.) 217 F.2d 942, we read:

"However, this case differs in an important particular from the Hinkle case where we pointed out that there was no suggestion of any sham or fakery on the part of Hinkle whose beliefs and views were admittedly sincere and genuine. Here it is to be noted the Department's recommendation of a denial of exemption was based upon a disbelief in Shepherd's honesty and sincerity as well as upon the legal conclusions that he could not be a conscientious objector because of his belief in self defense and in theocratic war." (945).

To repeat, and conclude this portion of the argument, no one has questioned Donato's sincerity, or attempted to rebut his *prima facie* case.

II,

The Law Does Not Permit Denials of Conscientious Objector Classifications to Be Based on the Tests Applied to This Appellant.

Congress provided that registrants, professing to be conscientious objectors to participation in warfare, be exempted from military service; Section 6 (j) of the Act. The tests to be applied are set forth in said section and we enumerated them on the second page of this Argument.

The tests applied by the Selective Service System, however, were ones not set forth in the law. They were arbitrary and artificial. The Selective Service System is to classify, not to penalize. The tests actually used are found on page 29 of the Exhibit, the selective service file. The tests used were:

1. "[W]ould he go to work if ordered as a I-O;" He answered "No."

2. "[W]ould he protect relatives." He answered "Yes."

We argue that both these tests are foreign importations, wholly outside the Act and judicial interpretation thereof. They show, at the very least that the board was "clouded" in "their thinking" as the court expressed it in *United States v. Kezmes*, W.D. Penn. 1954, 125 F. Supp. 300 at 302.

Ignored by the board and the court below were the holdings of this Court in *Affeldt v. U. S.*, (9th Cir., 1954) 218 F.2d 112, 114; *Ashauer v. U. S.*, (9th Cir., 1954) 217 F.2d 788; *Blevins v. U. S.*, (9th Cir., 1954) 217 F.2d 506, 508; *Clark v. U. S.*, (9th Cir., 1954) 217 F.2d 511, 515; *Goetz v. U. S.*, (9th Cir., 1954) 216 F.2d 270; *Hinkle v. U. S.*, (9th Cir., 1954) 216 F.2d 8.

This is true because a 1-A-O (non-combatant) type of conscientious objector need only have religious objections to a taking of human life; also, because it is now settled that even one who believes in force is not disqualified for a 1-O classification. At one time it was believed that the sanction of any use of force disqualified the registrant. It took a Supreme Court decision to settle this particular argument. *Sicurella v. United States*, *supra*. Belief in self defense and in defending one's religious brethren, as well as a belief preached by many sects of willingness to participate in Theocratic Warfare are not incompatible with conscientious objections to "warfare" as meant by Congress. See *Sicurella*, *supra*.

When a false basis is used the classification, and the order to report thereon are invalid. This is so even if the

trial court (as here, impliedly) finds a valid basis in fact exists, because it is not for the courts to classify. *Estep v. United States*, 327 U.S. 114; also, *Sicurella v. United States*, (1955) 75 S. Ct. 403.

Since there was no memorandum made by the board explicitly stating its reasons for denial of a conscientious objector classification it must be presumed that the board action was based on the concerns and reasoning shown in the summary on page 29 of the Exhibit, to wit: that a registrant refusing, in advance, to do 1-O work and one who believes in the western states' law of self-defense takes himself outside the Act's provisions for the conscientious objector classifications.

In addition to the above-cited cases of this Court also see *Close v. United States*, (7th Cir., 1954) 215 F.2d 439; it likewise shows that imported and artificial bases, ones not in the Act require reversal.

Also see *Ypparila v. United States*, (10 Cir., 1954) 219 F.2d 465, 469, and *United States v. Erickson*, 149 F.Supp. 576, 579.

Consequently there was a denial of procedural due process of law in the proceedings contrary to the "fair and just" provisions of the Act and the Fifth Amendment to the United States Constitution.

It is true that there was a time [before this Court spoke in the 1954 cases above cited and before the Supreme Court spoke in March, 1955 (four decisions)], when it was believed by the Selective Service System, the Department of Justice, and by many judges that a conscientious objector,

by definition, was required to be a pacifist; that a belief in self-defense negated the sincerity of the registrant's expressions of religious conscientious objection to participation in warfare. Although the 2d and 8th Circuits had the opportunity to lead the way⁵ by a few months this Court promptly held that the Act did not proscribe a belief in self-defense as soon as the question came before it. See *Clark v. United States*, 217 F.2d 511. In this decision this Court also eliminated war-connected work as a legitimate standard for denying a conscientious objector classification:

"The Hearing Officer believed that registrant was a sincere church member, but his statements on force and employment connected with war effort, in the Hearing Officer's opinion, precluded him from classification as a conscientious objector under the law. Accordingly, he recommended a I-A classification."

* * *

"It must be concluded that no portion of that which was thus before the appeal board furnished any basis for that board's rejection of a conscientious objector's exemption, at least so far as the conscientious objection to combatant military service is concerned." (514).

Hinkle, *Franks* and *Goetz*, all *supra*, are cited. Also see *Shepherd v. United States*, 9th Cir., *supra*, and *Batelaan v. United States*, (9th Cir., 1954) 217 F.2d 946. These cases are additionally important to this appellant because of the holding that the existence of an illegal basis for the Department of Justice's recommendation to the appeal

5. *United States v. Pekarski*, 207 F.2d 930 (C.A. 2d, 1953); *Taffs v. United States*, *supra*, 331.

board tainted the classification, although there was also present in the files express disbeliefs in those registrants honesty and sincerity. Appellant submits that his position is better than Shepherd's or Batelaan's, for no classifying agency expressed a disbelief in his honesty or sincerity. On this point also see *Hagaman v. United States, supra*.

CONCLUSION.

1. There was no basis in fact for the I-A classification.
2. Illegal bases were the sources of the classification.

Respectfully submitted,

J. B. TIETZ,

Attorney for Appellant.

DATED: August 29, 1961.

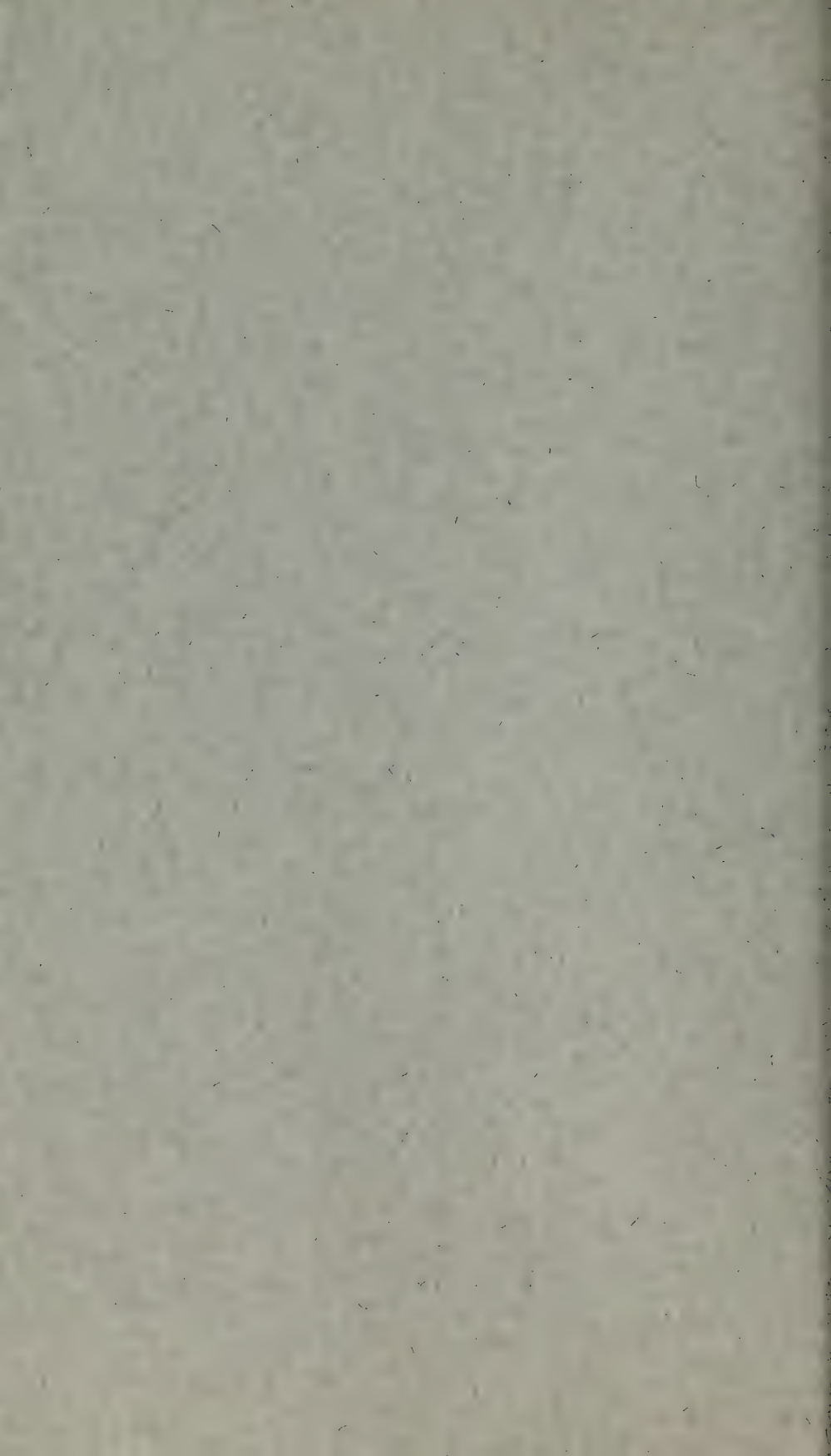
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Appellant,
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No. 17473.

(1962 Appeal)

J. B. TIETZ,
410 Douglas Building,
South Spring and Third Streets,
Los Angeles 12, California,
Attorney for Appellant.



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IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT.

JAN EMIL DONATO,		<i>Appellant,</i>		
	vs.			
UNITED STATES OF AMERICA,		<i>Appellee.</i>	}	No. 17473.

APPELLANT'S OPENING BRIEF.

—————

JURISDICTION.

This is a second appeal.

In *Donato v. United States*, 9 Cir., 1962, 302 F.2d 468, this Court remanded the case to the district court and provided that in any “[e]vent a new final judgment should be rendered preserving rights to further appellate review.”

On April 24, 1962, a new, final judgment was rendered [R. 13]. The Notice of Appeal from this judgment was filed in the time and manner required by law [R. 14].

STATEMENT OF THE CASE.

On April 24, 1962, the trial court certified to the Court of Appeals by a formal Certificate [R. 10] that it had considered the remand [T. 40].

On April 24, 1962, appellant was resentenced to three years imprisonment [R. 13, T. 49].

THE FACTS.

The facts upon which the decision of this Court were based appear in the briefing in the first appeal and in the reported opinion, all of which appellant desires to be considered on this appeal.

No new or additional testimony was presented by either party on the remand [T. 43].

QUESTIONS PRESENTED.

I.

Was there a legal basis for the conclusion of the trial judge at the remand hearing, April 24, 1962, to wit: that the defendant was not to be believed on the issue of defendant's avowed intention to perfect an administrative appeal?

II.

Is a selective service system administrative appeal essential, as an exhaustion of administrative remedies in a criminal case?

SPECIFICATIONS OF ERROR.

I.

The district court erred in concluding it had a basis in fact for finding appellant lied.

II.

The district court erred in not considering appellant's defenses on their merits.

SUMMARY OF ARGUMENT.

I.

A trier of fact must have a factual basis for disbelieving a witness: evidence or demeanor must exist.

No valid basis was used by the district court to reach its conclusion that appellant lied.

II.

The trial court never considered the merits of appellant's defenses. The trial court applied the rule of exhaustion of administrative remedies. Application of this rule to a criminal case, under the circumstances present is error.

III.

The record, briefs and reported opinion in the prior appeal (*Donato v. United States*, 9 Cir., 1962, 302 F.2d 468) should be considered as part of the record and the briefing in the determination of this appeal.

ARGUMENT.

I.

There Was No Basis for Concluding Appellant Had Lied.

Donato testified he intended to perfect an administrative appeal and that his fire fighting call came and frustrated him. A majority of the court held his account, if true, sufficient to justify a relaxing of the rule on exhaustion of administrative remedies. On remand no further facts were adduced. The trial court, on the remand held his account untrue.

We first point to the following elements in the posture of the case:

a. No serious attempt was made, by the prosecution or by the trial judge to shake appellant's testimony on this subject;

b. The facts concerning the times and extent of the forest fires he mentioned, and the fact of his claimed presence at them were all matters readily checked yet neither at the trial, nor at the remand hearing a year later was any evidence on the subject introduced by the government or any further questions asked of Donato.

The above elements in the factual situation lead us to ask just what did the trial court disbelieve? Was it—

1. That Donato was fighting fires at the times and places he named?

2. The length of the firefighting activity?

3. Or was it solely the subjective matter, namely, Donato's expressed intention to appeal?

Because of the elements enumerated above (a. and b.) it must have been the last possibility (no. 3) and we shall make our argument on that assumption.

We argue that Donato's failure to appeal was neither deliberate nor intentional. If it was, then he comes within the proscription of the Evans and Prohoroff* cases that this Court used as points of reference in its decision on the first appeal. Although the trial court concludes its Certificate with the statement "It is clear that the defendant's failure to appeal administratively was deliberate and intentional" [R. 12, T. 43] we contend it is not clear at all and that there is no basis in the record for the trial judge's belief as expressed in the Certificate.

There were two kinds of evidence before the trial judge, direct and indirect:

The direct evidence was that Donato was getting ready to appeal [R. 29, 32-33].

The fact that he didn't do it would ordinarily be against him [with respect to exhaustion of remedies] but here it is immaterial and of no weight, that is, concerning intent.

The indirect evidence was drawn out by the trial judge, over objection [T. 31] the court stating "It bears on the question of intent." This shows that the court was looking for evidence that would bear on this question. It is our view the trial court realized there had to be some evidence to support an adverse conclusion.

**Evans v. United States*, 9 Cir., 1958, 252 F.2d 509; *Prohoroff v. United States*, 9 Cir., 1958, 259 F.2d 694.

Thus, the only evidence to support the trial court's conclusion that Donato lied is that he didn't appeal the first time he had a chance and such evidence being immaterial it affords no basis for the trial court's conclusion.

The matter is now before the Court as if it were submitted on an agreed statement of fact. This Court has already held it may review such a factual matter. *Blair et al. v. United States*, 9 Cir., 1917, 241 Fed. 217:

"It is well settled that, when a case is submitted upon an agreed statement of facts, the sufficiency of the facts so agreed on to sustain the judgment entered may be reviewed on writ of error. *United States v. Eliason*, 16 Pet. 291, 300, 10 L. Ed. 968; *Henderson's Distilled Spirits*, 14 Wall. 44, 53, 20 L. Ed. 815; *Hipple v. Bates County*, 223 Fed. 22, 138 C.C.A. 436. See also *Kennedy v. Brent*, 6 Cranch 187, 3 L. Ed. 194; *Barnet v. Chapman*, 5 Cranch 358, 3 L. Ed. 125." [230]

If this were a civil case the test of substantiality would be used. This Court so held in *United States v. Jones*, 9 Cir., 1935, 74 F.2d 986. We argue that a more stringent test should be used in a criminal appeal.

In any event as a matter of law there must be some evidence to support a finding. For example: In passing on judgment of non-suit, this Court held it was required to determine if there was evidence of sufficient *substantiality* to support a verdict for plaintiff, and, if not, plaintiff was properly non-suited. *Wood v. Moore*, 9 Cir., 1928, 97 F.2d 402, 407. This principle should be even more applicable in a criminal case.

As the dissenting opinion of this Court in the first appeal pointed out the case was remanded to the trial court

for possible further probing into Donato's excuse for not appealing. It is now reasonably clear that the trial court believed no more facts could be adduced by additional probing. Our view is that this is a concession that all objective matters testified to by Donato would only be corroborated by additional probing and that there remained for the trial court only an assessment of the subjective matters relating to intent. We repeat our view that in a criminal case there can be no adverse finding on such a subjective matter absent a scintilla of probative evidence.

II.

An Administrative Appeal by a Selective Service Registrant Is Not an Essential Prerequisite, in a Criminal Case for a Consideration of His Meritorious Defenses.

We concede that many courts have assumed the contrary and so held. We argue that the Supreme Court has never so declared and that it isn't good law.

The doctrine was started to protect the courts from having to deal with complex factual situations better decided by expert agencies. Its extension to criminal cases was a long and wrong step and, as a Third Circuit dissenting opinion has pointed out "The courts of appeal and district courts have been divided as to whether exhaustion of all administrative remedies must be shown in these Selective Service cases." *Palmer v. United States*, 3 Cir., 1955, 223 F.2d 893, 901 (minority opinion of three judges out of an *en banc* hearing by seven).

Therefore, we will consider and argue only the Supreme Court decisions. Although there have been very

many civil cases before the Supreme Court that involve this doctrine (see Appellant's Reply Brief in first appeal) there have been only four draft cases that refer to this doctrine:

Billings v. Truesdell, 1944, 321 U.S. 542, 64 S. Ct. 737, *Falbo v. United States*, 1944, 320 U.S. 549, *Estep v. United States (Smith v. Same)*, 1946, 327 U.S. 114, 66 S. Ct. 423, *Gibson v. United States (Dodez v. Same)*, 1946, 67 S. Ct. 301.

1. *Billings* was a habeas corpus case and therefore does not really apply to our contention that the doctrine should not be used in criminal cases. In addition, in *Billings* the issue was not the rule of exhaustion of remedies. A registrant was denied a classification as a conscientious objector. He reported to the army when directed to, but refused to submit to induction. The army claimed *Billings* was subject to military jurisdiction. The Court held he was not. In explaining that *Billings* had tried to complete the selective service process as outlined in the *Falbo* case, the Court for the first time referred to "exhaustion". The Court definitely did not extensively consider the rule; it did not lay down a mandatory rule; it merely said:

"Moreover, it should be remembered that he who reports at the induction station is following the procedure outlined in the *Falbo* case for the exhaustion of his administrative remedies. Unless he follows that procedure he may not challenge the legality of his classification in the courts. But we can hardly say that he must report to the military in order to exhaust his administrative remedies and then say that if he does so report he may be forcibly inducted against his will. That would indeed make a trap of the *Falbo* case * * *" (321 U.S. at 558).

2. Falbo only holds that the last step (obeying the order to report) is essential to qualify for judicial review. This is explicitly recognized in *Donato v. United States*, 9 Cir., 1962, 302 F.2d 468. The logic of this is clear: The registrant must go the end of the ladder but need not step on every rung. The available administrative appeal is but an intermediate "rung" and is otherwise concededly *optional*. No one would contend, for example, that failure to take such an appeal is ever a violation of law, whereas a failure to report for induction is and has been the sole basis for indictment and prosecution in several thousand instances.*

In Falbo, petitioner urged that the District Court had erred in refusing to permit a trial *de novo* on the merits of his claimed exemption. The board had classified one of Jehovah's witnesses as a conscientious objector rather than a minister. Since, at that time, the order to report to a Civilian Public Service Camp was not the final step in classification (he was later physically examined and might be rejected and placed in Class IV-F), the Court viewed the order to report as "an intermediate step" and not reviewable (as intermediate orders are usually not reviewable.) The Court did not even refer to "exhaustion". It framed the issue and its ruling thus:

"The narrow question therefore presented by this case is whether Congress has authorized judicial review of the propriety of a board's classification in a

*Federal Prisons, 1946 (Annual report of the Bureau of Prisons) 11 Conscientious objectors (1950) 318-328 (Published by SS System).

criminal prosecution for wilful violation of an order directing a registrant to report for the last step in the selective process.

"We think it has not." (320 U.S. at 554.)

3. Again in the *Estep* case (1946), the Supreme Court did not decide that a person must exhaust administrative remedies. The real issue was whether Selective Service classifications could be reviewed in criminal prosecutions.

The Court unanimously held that such review was constitutionally required, saying:

"Judicial review may indeed be required by the Constitution, *Ng Fung Ho v. White*, 259 U.S. 276 * * * It is only orders 'within their respective jurisdictions' that are made final. It would seem, therefore, that if a Pennsylvania board ordered a citizen and resident of Oregon to report for induction, the defense that it acted beyond its jurisdiction could be interposed in a prosecution under sec. 11 * * *.

"Any other case where a local board acts so contrary to its granted authority as to exceed its jurisdiction does not stand on a different footing * * * If a local board ordered a member of Congress to report for induction, or if it classified a registrant as available for military service because he was a Jew, or a German, or a Negro, it would act in defiance of the law. If a local board refused to reopen on the written request of the State Director a registrant's classification and refused to cancel its order to report for induction, it would be acting in the teeth of the regulations. In all such cases its action would be lawless and beyond its jurisdiction.

“* * * We cannot readily infer that Congress departed so far from the traditional concepts of a fair trial when it made the actions of the local boards ‘final’ as to provide that a citizen of this country should go to jail for not obeying an unlawful order of an administrative agency * * * The question of jurisdiction of the local board is reached only if there is no basis in fact for the classification which it gave the registrant.”

The Jehovah’s witnesses in the Estep case did not have any religious scruples against cooperating with Selective Service; the Selective Service process had been carried out completely and they had been accepted for service. It is clear that it was this final acceptability for service that was important, though the Court does incidentally refer to “exhaustion”—not as a mandatory requirement, but as having been completed. Said the Court:

“In *Falbo v. United States* * * * We found no provision for judicial review of a registrant’s classification prior to the time when he had taken all the steps in the selective process and had been finally accepted by the armed services. The question in these cases is whether there may be judicial review of his classification in a prosecution under sec. 11 where he reported for induction, was finally accepted, but refused to submit to induction” (327 U.S. at 115-116).

“*Falbo v. United States*, supra, does not preclude such a defense in the present case (classification without basis in fact). In the *Falbo* case the defendant challenged the order of his local board before he had exhausted his administrative remedies. Here these

registrants had pursued their administrative remedies to the end" (327 U.S. at 123).

If being "finally accepted" is the important criterion (so that the administrative classification may have become final) then the change in the law and regulations place the defendant in the instant case in the same position as *Estep* and able to question his classification. At the time of the cases discussed above a notice to appear for induction came first and then a physical examination. Now the physical examination comes first and a person who is delinquent in taking the examination or otherwise can be ordered to report for induction and is accepted without a physical examination (32 C.F.R. Sec. 1628.10). Conscientious objectors ordered to a job do not have to take a physical examination at the job.

4. Gibson (and Dodez) present a "further step" (as the Court termed it on page 302) in the development of the law on this point. Gibson was prosecuted for leaving a Civilian Public Service Camp (the then form of civilian work in lieu of induction) five days after his arrival. Dodez refused to go to a C.P.S. Camp.

The Court stated—

"The principal issues relate to the time of completing the administrative selective process and the effect in each case of what was done in this respect upon the petitioner's right to make defense in the criminal proceedings on various grounds going to the validity of the classification." [302]

The government argued that Gibson had gone too far and thus his defenses were cut off; that Dodez hadn't

gone far enough and was in the same defenseless position as Falbo. All the lower courts agreed with the government; the Supreme Court did not, in both cases.

The decision turned on the change of regulations after Falbo; the advent of the preinduction physical examination.

The Supreme Court has never spoken on the intermediate portions of the procedures. It seems clear that they are optional, that (as we have already said) they are like rungs of a ladder and that arriving at the *end* of the ladder is the essential step to "complete the Selective process." This Donato did.

The primary question presented is whether the rule of exhaustion of remedies should be applied so as to exclude an otherwise meritorious defense against a criminal charge. As the dissent in the first appeal of this case pointed out the non-application of the rule would not free the defendant; and the only burden imposed on the trial courts would be that of hearing the defense.

If the rule should be applied in criminal cases the next question is how harshly it should be applied. Should it ever be applied where the sentence, as here, can be a prison term whose length approximates that of the entire adult life of the defendant?

If the rule is applicable to cases where the possible loss to the defendant is so great compared with the effort required of the court, is the rule applicable where defendant may have been unaware of the grave consequences of his lack of action?

It has been held by this Court, that even if the answers to the above questions are affirmative, still the rule is not applicable unless the omission was "deliberate". Does this mean that deliberate intent must be shown? *i. e.*, must the record show that defendant deliberately refused to act? We believe it must; we point out that no such evidence was presented or even referred to.

If application of the rule does not require demonstration of deliberate ill intent, doesn't this mean that the burden has been shifted to the defendant of proving his innocence? If this remarkable conclusion were correct, exhaustion of administrative remedies would emerge as a potent weapon for those who would shortcut the entire system of evidentiary rules laboriously erected through ten centuries of Anglo-Saxon law.

CONCLUSION.

Even if the rule is applicable in the face of these weighty objections, appellant remains in the right, since he did present evidence (his direct testimony) that he had good intent, although frustrated into inaction by an excess of obligations. Must there not be other controverting evidence if the defendant is not believed?

If there need not be other evidence, can the court then disbelieve the witness as to his own state of mind, one showing some defect in the character of the witness? Can the court simultaneously conclude that the defendant is an otherwise honest man while insisting on disbelief of a single, isolated statement?

If there need be other evidence, at least relating to the defendant's character, is his failure to act on another occasion any more material to the question of intent than his failure to act on this occasion? [We point out that if intent is the central question, establishment of the deed (failure to appeal) cannot be conclusive of the question, otherwise there would be no question] Even if ill intent had been proved on a previous occasion (which it was not, but only lack of good intent) it could hardly prove ill intent on the present occasion without the assumption of a natural tendency to evil. If one believes in the inherent goodness of man and his ability to learn, the demonstration of a previous mistake would argue for rather than against the defendant having learned by his experience (as he said he did.)

Appellant does not argue here that the trial court be directed to take a particular view of human nature. Rather, we wish to show that where the rule of exhaustion of administrative remedies is applied as it was in this case, a particular view of human nature is allowed to form the entire basis for a decision at law.

In other words, the ruling of the trial court is seen to consist of the following: an otherwise meritorious defense against a criminal charge brought against an inexperienced young man can be ignored because of a procedural omission by him at a time when he was without counsel, where the omission occurred not only without evidence of ill intent but where evidence of good intent is disbelieved solely on the basis of testimony regarding some other and quite dis-

tinct act, in itself not casting any doubt on the character of the witness.

Respectfully,

J. B. TIETZ,
Attorney for Appellant.

September 15, 1962.

No. 17473
IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT

JAN EMIL DONATO,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

BRIEF OF APPELLEE.

FRANCIS C. WHELAN,

United States Attorney,

THOMAS R. SHERIDAN,

Assistant United States Attorney,

Chief, Criminal Division,

J. BRIN SCHULMAN,

Assistant United States Attorney,

600 Federal Building,

Los Angeles 12, California,

Attorneys for Appellee

United States of America.

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No. 17473
IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT

JAN EMIL DONATO,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

BRIEF OF APPELLEE.

Jurisdictional Statement.

On February 21, 1961, the Federal Grand Jury in and for the Southern District of California indicted appellant in a one count Indictment for knowingly failing and refusing to be inducted into the armed forces of the United States, in violation of Section 462 of Title 50 United States Code, Appendix. [C. T. 2.]*

After arraignment and the entry of a plea of not guilty, appellant was tried without a jury in the United States District Court for the Southern District of California, Central Division, on May 1, 1961, before the Honorable William M. Byrne [R. T. 4]**; and at the close of the trial and argument, was found guilty as charged, by Judge Byrne. [R. T. 36.]

*"C. T." refers to Clerk's Transcript of Record.

**R. T. refers to Reporter's Transcript of Proceedings in the Trial Court.

On May 22, 1961, appellant was sentenced to the custody of the Attorney General for imprisonment for three (3) years. [C. T. 5.]

Jurisdiction of the District Court was based on Title 18 U. S. C., Section 3231, and Title 50 U. S. C., Appendix, Section 462.

Jurisdiction of this Court is based on Title 28 U. S. C., Sections 1291 and 1294.

Statement of the Case.

Insofar as not stated in the Jurisdictional Statement, the case is as follows:

On May 1, 1961, prior to the conclusion of the trial, appellant made a motion for judgment of acquittal, which motion was thereafter argued and denied. [R. T. 36.]

On May 22, 1961, appellant was sentenced, and immediately thereafter filed a Notice of Appeal from the Judgment of the court. [C. T. 5, 6.]

Appellant has specified as error, that "The District Court erred in failing to grant the Motion for Judgment of Acquittal" (A. B. 6); and particularized his argument on two grounds, as hereinafter will be referred to in the opening of Appellee's Argument (A. B. Index.)

Statutes, Regulations and Memorandum Involved.

Title 50, United States Code, Appendix, Section 462, provides, in pertinent part, as follows:

"(a) Any . . . person charged as herein provided with the duty of carrying out any of the provisions of this title [sections 451-470 of this

Appendix], or the rules or regulations made or directions given thereunder, who shall knowingly fail or neglect to perform such duty . . . shall, upon conviction in any district court of the United States of competent jurisdiction, be punished by imprisonment for not more than five years or a fine of not more than \$10,000, or by both such fine and imprisonment . . .”

Title 32, Code of Federal Regulations (Selective Service Regulations), provides, in pertinent part, as follows:

Section 1624.1(a):

“OPPORTUNITY TO APPEAR IN PERSON.—Every registrant, after his classification is determined by the local board . . . shall have an opportunity to appear in person before the member or members of the local board designated for the purpose if he files a written request therefor within 10 days after the local board has mailed a Notice of Classification (SSS Form No. 110) to him. Such 10-day period may not be extended.” (See also Local Board Memorandum No. 52, paragraphs 1, 2(a) and 3.)

Section 1624.2:

“APPEARANCE BEFORE LOCAL BOARD.—(a) At the time and place fixed by the local board, the registrant may appear in person before the member or members of the local board designated for the purpose. A notation that he has appeared shall be entered on the Classification Questionnaire (SSS Form No. 100).

“(b) At any such appearance, the registrant may discuss his classification, may point out the class or classes in which he thinks he should have been placed, and may direct attention to any information in his file which he believes the local board has overlooked or to which he believes it has not given sufficient weight. The registrant may present such further information as he believes will assist the local board in determining his proper classification. Such information shall be in writing, or, if oral, shall be summarized in writing by the registrant and, in either event, shall be placed in the registrant’s file. The information furnished should be as concise as possible under the circumstances. The member or members of the local board before whom the registrant appears may impose such limitations upon the time which the registrant may have for his appearance as they deem necessary.”

Section 1626.2:

“APPEAL BY REGISTRANT AND OTHERS. — (a) The registrant, . . . may appeal to an appeal board from the classification . . . by the local board in any class other than Class I-C, Class I-W, Class IV-F, and Class V-A.”

“. . . (c) The registrant, . . . may take an appeal authorized under paragraph (a) of this section at any time within the following periods:

(1) Within 10 days after the date the local board mails to the registrant a Notice of Classification (SSS Form No. 110)”. . . .

“(d) At any time prior to the date the local board mails to the registrant an Order to Report

for Induction (SSS Form No. 252), the local board may permit any person described in paragraph (c) of this section to appeal even though the period for taking an appeal has elapsed, if it is satisfied that the failure of such person to appeal within such period was due to a lack of understanding of the right to appeal or to some cause beyond the control of such person. Unless the local board thereafter permits an appeal, the right of such persons to appeal shall expire at the end of the period provided for in paragraph (c) of this section. If an extension of time to appeal is granted by the local board, a record thereof shall be entered on the Classification Questionnaire (SSS Form No. 100)."

Section 1626.11(a):

"HOW TO APPEAL TO APPEAL BOARD IS TAKEN.—(a) Any person entitled to do so may appeal to the appeal board by filing with the local board a written notice of appeal. Such notice need not be in any particular form but must state the name of the registrant and the name and identity of the person appealing so as to show the right of appeal. The language of any such notice shall be liberally construed in favor of the person filing the notice so as to permit the appeal."

Statement of Facts.

The following undisputed factual information is abstracted from appellant's Selective Service file, a photostatic copy of which was received into evidence as Plaintiff's Exhibit No. 1 after stipulation of both parties to such admission [R. T. 26], and from testimony and

other evidence received during the course of the trial. Although appellant has attempted to outline the history of this case (A. B. 1-5)* it is submitted that the following chronological résumé will more completely present the matter which should be before this court on this appeal.

On January 18, 1955, appellant registered with Local Board No. 85 (hereinafter referred to as "the Board") North Hollywood, California [Ex. 3].**

On February 10, 1955, the Board sent Selective Service Classification Questionnaire, SSS Form 100, to appellant [Ex. 5] which was thereafter completed and returned to the Board on February 24, 1955. In this Form 100, appellant claimed to be a conscientious objector to participation in war. [Ex. 11.] Pursuant to this claim, a Special Form for Conscientious Objectors, SSS Form 150, was mailed to appellant, who completed it and returned it to the Board on or about March 1, 1955. [Ex. 12.] Subsequently on January 21, 1958, the Board mailed a Selective Service Dependency Questionnaire, SSS Form 118, to appellant, who thereafter completed and returned it to the Board on or about February 3, 1958. [Ex. 17.]

On February 19, 1958, the Board classified appellant in Class I-A by a vote of 2-0 and on this same date, mailed a Notice of Classification, SSS Form 110 to appellant notifying him of said classification. [Ex. 12.] When asked, during cross-examination at the trial, whether he was aware of his right to appeal

*"A. B." refers to appellant's Brief on Appeal.

**Ex. refers to Plaintiff's Exhibit No. 1 and pagination appearing therein.

and to request a personal appearance before the Board during the ten days after the SSS Form 110 was mailed to him, appellant testified, in essence, that he was aware of such rights and that he chose not to exercise them. [R. T. 31-32.]

On September 29, 1959, the Board mailed an Order to Report for Armed Forces Physical Examination, SSS Form 223, to appellant ordering him to present himself for physical examination on November 6, 1959. [Ex. 21.] Appellant did so report on November 6, 1959. On November 16, 1959, the Board mailed a Statement of Acceptability to appellant advising him that he had been found fully acceptable for induction into the Armed Forces. [Ex. 12, 22.]

On May 20, 1960, the Board mailed an Order to Report for Induction, SSS Form 252, to appellant, ordering him to report on June 13, 1960, at 8:00 A.M. at the Los Angeles Examining and Induction Station. [Ex. 12, 23.] Subsequently, on June 8, 1960, the Board requested postponement of appellant's induction from the District Coordinator, Selective Service System, for the purpose of reopening appellant's classification, to reconsider appellant's claim of conscientious objection to war. [Ex. 24.] On this same date, June 8, 1960, appellant was notified that his induction had been postponed until further notice, by a Postponement of Induction, SSS Form 264. [Ex. 25.] Also on this same date, a letter was sent from the District Coordinator, Selective Service System, giving the Board formal authority for the postponement of appellant's induction and for the reopening of his classification. [Ex. 27.]

Thereafter, on June 21, 1960, the Board mailed a letter to appellant requesting him to present himself for an *interview* with the Board on July 13, 1960 at 8:15 A.M., for the purpose of clarifying information in his Selective Service file. [Ex. 28.] This *interview* was to be conducted in conformity with Selective Service Board Memorandum No. 52, Paragraph 3(a).

On July 13, 1960, appellant was interviewed by three members of the Board. When asked if he had any other information to present appellant merely acknowledged that he had been called at the Board's request and wanted to know if they had any questions they would like to ask him. He told the Board that he averaged eight to ten hours of preaching per month and that although he did not believe his ministerial work was enough for him to be classified as a minister he thought he should have a I-O classification as a conscientious objector rather than a I-A classification. Appellant further advised the Board that if he were ordered to work, if he were classified I-O, he would not go to work but that he wanted a I-O classification. He further told the Board that "he would protect anybody or himself against injury or harm, no matter where they lived." He further advised the Board that he did excavation work for a living. [Ex. 29.]

On the same date, July 13, 1960, the Board re-classified appellant in Class I-A based on his interview, by a vote of 3-0 [Ex. 12] and mailed SSS Form 110 to appellant notifying him of such classification. [Ex. 12.] After referring to the last mentioned notice, during the trial, it was stipulated by the parties "that the Form SSS 110 that he received notified him of his right to appeal". [R. T. 27.]

On direct examination by Mr. Tietz, appellant was asked the following questions and replied with the corresponding answers:

“ . . .

Q. Why didn't you take an appeal when you got the notice, whatever it said on it, after this meeting? A. Well, I had made up my mind to take an appeal within the 10 days, and in my work I had signed up with the U.S. Forestry Service to fight fires in case a forest fire did arise in Los Angeles County and in Angeles National Forest, or in Los Padres Forest, and on July 18, I was notified that I should get everything ready, they had a fire, and then on July 20th, at midnight I was called to go to work on this fire.” [R. T. 29-30.]

On cross-examination of the appellant, the following testimony was elicited:

“ . . .

Q. Then referring to your second notice of classification that was sent to you, sir, on July 13th, when did you start to fight fires, sir? A. July 20th at midnight is when I actually officially started.

Q. When did you leave your home area for the fire area? A. That date, the 20th.

Q. Approximately seven days, then, after July 13th? A. That is correct.

Q. Had you received your notice prior to the time that you left to fight the fire, sir? A. Yes, I had.

Q. How long beforehand? A. Approximately five days.

Q. And you were aware then, as before on the first notice, of your right to appeal and to request a personal appearance within 10 days? A. Yes, I had gotten further information on appealing this particular instance, and I was preparing information to send an appeal in.

Q. Did you know that a letter would have served for a request for personal interview without going into great detail at that time, that as a matter of right you could just request a personal appearance? A. At this time I did not know this. I expected to make a personal appearance.

Q. I know, but I am referring to requesting the personal appearance; I am not referring to the actual appearance? A. I understood a letter will usually suffice for any type of action of this type to make a request." [R. T. 32-33.]

When asked when he returned from fire fighting, appellant replied "approximately the 28th of July." [R. T. 33.] The final question asked appellant on this subject, was:

"Q. Did you contact the Board thereafter, sir, with reference to the possibility of another request for personal appearance and perhaps to try to explain your delay? A. *No, I did not because of the fact that the 10 days were specifically specified to the fact that an appeal would not be acceptable after the 10 days*, so I left it at that and I thought when the time came, it would be explained." (Emphasis added.) [R. T. 33.]

On August 11, 1960, the Board ordered appellant to report for induction, by SSS Form 252, at the Los

Angeles Examining and Induction Station on September 23, 1960, at 8:00 A.M. [Ex. 30.] On September 23, 1960, appellant reported to the Induction Station and was found acceptable for induction into the Armed Forces. [Ex. 34.] He thereafter refused to "step forward to be inducted." [R. T. 25] and was advised by the Deputy Commanding Officer for Induction, Lt. Boughton, "that his refusal to submit to induction constituted a felony under the Universal Military Training and Service Act, that if found guilty was punishable as such by five years in prison or \$10,000 fine or both." [R. T. 25.] He was given two more opportunities to step forward and failed to do so on each such occasion. [R. T. 25, 26.]

Thereafter appellant executed a handwritten statement to the effect that "he refused to be inducted into the armed forces of the United States." [R. T. 26; Ex. 31, 32, 55.]

Summary of Argument.

Appellant has not exhausted the administrative remedies available to him to attack his reclassification in class I-A by his Local Board. He had no standing to do so for the first time, in the trial court, as the basis of a motion for judgment of acquittal following his conviction for having refused to submit to induction into the Armed Forces of the United States.

Argument.

Appellant, through his able and experienced counsel, has presented to this Court an 18 page brief, which specifies that the trial court committed error by not granting his motion for judgment of acquittal; the argument supporting this specification was two-fold:

I. No Basis in Fact is Present to Support the Denial of a Conscientious Objector Classification.

II. The Law Does Not Permit Denials of Conscientious Objector Classifications to Be Based on the Tests Applied to This Appellant.” (A. B. Index).

Appellee is at a loss to understand how these arguments can be presented to this Court, in this fashion, in light of numerous decisions in this Circuit and by the Supreme Court, which have repeatedly required a person, attacking the classification by a local board, to show that he has exhausted the administrative and procedural remedies available to him, *prior* to his raising such a contention in a trial court.

Appellant's entire argument is devoted to attacking his classification by the Local Board, without so much as an attempt to meet the obvious controlling issue which must first be decided by this Court.

The evidence is clear that appellant made no efforts whatsoever, to request a personal appearance before his Local Board after he was reclassified I-A on July 13, 1960, or to appeal that classification in the manner prescribed by law. Admittedly, he knew of his right to appeal [R. T. 32, 33] and that such could be accomplished by letter [R. T. 32]; and that such

right expired after 10 days. [R. T. 32.] Yet, confronted with this factual and classical situation of a failure to exhaust remedies, the sole reference made in appellant's opening Brief thereto, was this casual statement:

"He did not take an appeal for reasons that were related in his testimony; this subject will be argued in our closing Brief *if* appellee raises an issue on it." (Emphasis added). (A. B. 5.)

Appellee does not raise the issue. It is inherent in the case and it is submitted that the solution thereof must necessarily control the outcome of this appeal.

A registrant is given certain procedural remedies which he may follow, upon receiving a classification with which he disagrees. The rights of personal appearance, and of appeal of selective service classification are clearly set out in 32 C. F. R. Sections 1624.1(a) [as implemented by Local Board Memorandum No. 52]; 1624.2(a) and (b); 1626.2(a), (c)(1), and (d); and 1626.11(a).

The problem is not unique to the Appellate Courts to find a registrant, who has believed himself deserving of a classification as a conscientious objector, minister, or other than that which he receives, who fails to ever raise his voice in disagreement until he is before a District Court under indictment for violation of the Selective Service laws.

At least as early as 1944, the problem was raised when a registrant had been classified I-O by his Local Board and thereafter ordered to report for an assignment of work of national importance. This registrant, one Falbo, never did report as so ordered, and

refused to do so. Interestingly enough he *had* availed himself of an administrative appeal prior to his ultimate classification, yet did not comply with the last order of his Board. On an appeal from a conviction for this failure, he argued that he was entitled to a statutory exception from all forms of national service "since the facts he had presented to the Board showed that he was a 'regular or ordained minister.'" He further contended that the act "does not make it a crime to refuse to obey an order to report for service if that order is based upon an erroneous classification, because there is no 'duty' to comply with a mistaken order."

The Supreme Court outlined the problems confronting the nation, regarding national defense, and set out the basic structure and purpose of the Selective Service System [which it will be noted is noted somewhat greater in scope than was appellant's limited definition, as being merely "to classify" (A. B. 14)]; and the minimal compliance with its procedures necessary, antecedent to making an attack on the conclusions reached in its process. The court stated in *United States v. Falbo*, 320 U. S. 549 (1944), as follows, at page 551, *et seq.*:

" . . . (T)he Act was passed to mobilize national manpower with the speed with which that necessity and understanding required. . . .

"The mobilization process which Congress established by the Act is designed to operate as one continuous process for the selection of men for na-

tional service. Under the system, different agencies are entrusted with different functions but the work of each is integrated with that of the others. Selection of registrants for service, are to be effected within the framework of this machinery as implemented by rules and regulations prescribed by the President . . . The registrant may contest his classification by a personal appearance before the Local Board, and if that board refuses to alter the classification, by carrying his case to a board of appeals, and thence, in certain circumstances, to the President. Only after he has exhausted this procedure is a protesting registrant ordered to report for service . . . Even if there were, as the petitioner argues, a constitutional requirement that judicial review must be available to test the validity of the decision of the Local Board, it is certain that Congress was not required to provide for judicial intervention before final acceptance of an individual for military service. The narrow question therefore presented by this case is whether Congress has authorized judicial review of the propriety of a board's classification in a criminal prosecution for wilful violation of an order directing a registrant to report for the last step in the selective process.

“We think it has not . . . Surely if Congress had intended to authorize interference with that process by intermediate challenges of orders to report, it would have said so. . . .”

Thus, although this defendant had followed certain administrative procedures, regarding his original appeal of classification, the Court held that his failure to

complete the administrative processing, within the framework of the then current Act,¹ prohibited the trial court from examining the propriety of the board's actions in classifying him as it did.

In *Estep v. United States*, 327 U. S. 114 (1945), the Court made very clear that although it was not deciding the merits of the appellant's contention, as to whether the board had a basis in fact for its classification, it was finding that the petitioners were denied an opportunity *to show* that their local boards exceeded their jurisdiction. At pp. 115 and 116, the Court referred to its earlier decision in *United States v. Falbo (supra)*, and noted, that in that case:

“We found no provision for judicial review of a registrant's classification prior to the time when he had taken all the steps in the selective service process and had been finally accepted by the armed services.”

The Court further pointed out how it was able to reach its ultimate decision, (in *Estep*), not being hampered by the problem that it was in *Falbo*. The Court distinguished the two cases by noting at p. 123:

“In the *Falbo* case the defendant challenged the order of his Local Board before he had exhausted his administrative remedies. Here these registrants had pursued their administrative remedies to the end. All had been done which could have been done. . . .”

The following year, 1946, marked a third expression of the Supreme Court, consistent with its earlier

¹Selective Service Act of 1940, 50 U. S. C. Appendix §§301-318.

positions. In *United States v. Balogh*, 329 U. S. 692 (1946), the Court reversed the judgment of the Court of Appeals for the Second Circuit which had previously reversed Balogh's conviction because of a denial of a fair hearing by the board (*United States v. Balogh*, 157 F. 2d 939, 944 (2 Cir. 1944)). This *per curiam* decision of the Supreme Court, in vacating the judgment and remanding the case to the Court of Appeals, citing *Falbo*, clearly solidified the requirement of exhaustion of remedies prior to such an attack on a classification by a Local Board.

Nor has there been a dirth of decisions on this same problem in this Circuit. Appellant's counsel himself has argued many cases before this Court where all administrative remedies had not first been fully exhausted, where this Court clearly delineated the scope of review of the trial and appellate courts.

See:

Williams v. United States, 203 F. 2d 85 (9 Cir. 1953), 345 U. S. 1003 (1953);

Mason v. United States, 218 F. 2d 375 (9 Cir. 1954);

Evans v. United States, 252 F. 2d 509 (9 Cir. 1958).

In *Williams, supra*, this Circuit affirmed a conviction of a defendant who had refused to report for induction, and pointed out at p. 87:

"After intentionally refusing to conform to the order of the Board, the selectee may not challenge his classification in a criminal prosecution for his failure to do so since he also failed to pursue the appellate steps provided by the Selective Service

Act.” (Citing *Falbo v. United States*, 320 U. S. 549 (1944), and *Estep v. United States*, 327 U. S. 114 (1945).)

And, at p. 88, the Court continued by noting that a selectee must show that:

“ . . . he has complied with all the steps in the selective service process. Only then will judicial review of an alleged violation of a selectee’s constitutional rights by his Local Board be available . . . (citing *Falbo, supra* again). . . . Appellant did not comply with all the steps in the selective service process. Therefore, he may not attack his classification or the Board’s procedure. . . . ”

The *Mason* case (*supra*), similarly raised the question of a classification by a local board without basis in fact therefor, and the Court citing *Falbo (supra)*, and *Williams (supra)*, concluded at p. 380, that due to his failure to exhaust his administrative remedies:

“The appellant was without standing to assert in the trial court the invalidity of the order for induction.”

Finally, in *Evans (supra)*, this Court again rejected the claim that the local board has used arbitrary and artificial tests in classifying the registrant. This is the same as the second argument raised by this appellant on the instant appeal. The Court in pointing out that the conviction must be upheld unless appellant could properly have raised a question as to his I-A classification during his trial, said at p. 513:

“ . . . (A)ppellant attempts to exclude his case from the exhaustion of remedies rule on the

basis that the Local Board determined his classification by arbitrary action and thereby denied him due process. But a claim by a registrant of lack of due process in his Local Board classification does not relieve him from the requirement of taking the appellate steps available to him administratively before attempting a collateral attack on the classification." (Citing *inter alia*, *United States v. Balogh*, 329 U. S. 692 (1946); *Mason v. United States*, 218 F. 2d 375, 379 (9 Cir. 1954); *Kalpakkoff v. United States*, 217 F. 2d 748 (9 Cir. 1954); *Francy v. United States*, 217 F. 2d 750 (9 Cir. 1954).

In *Prohoroff v. United States*, 259 F. 2d 694 (9 Cir. 1958), counsel again claimed an unlawful classification, in a situation where no administrative appellate steps had been taken by the appellant. It is submitted at this time that the holding in that case, along with other references herein, compels a similar and uniform disposition of this appeal. The Court in *Prohoroff* pointed out, at p. 696:

"The recent decision of this Court in *Evans v. United States*, *supra*, after exhaustively reviewing decisions of this and other courts, held that a registrant failing to exhaust his remedies of administrative appeals under circumstances similar to those just stated in Appellant's conduct has no standing to seek from the Court the same relief he might have obtained by such administrative appeals . . . The *Evans* case rule on that point is clearly applicable here in this case. We reject appellant's contention of error in the District

Court respecting his classification and induction notices, since he knowingly failed to exhaust his remedies of administrative appeal.”

For other cases holding similarly as those discussed herein, see:

Skinner v. United States, 215 F. 2d 767 (9 Cir. 1954);

Kaline v. United States, 235 F. 2d 54, 62 (9 Cir. 1956);

Shaw v. United States, 264 F. 2d 118 (9 Cir. 1959).

Appellant has chosen to ignore all of these cases and to proceed with arguments which have uniformly been held to be beyond the scope of review in such a situation as is before this Court. Although appellant admitted knowledge of his rights to a personal appearance and to an appeal thereafter, he chose to proceed no further in that direction after either his first or second classification of I-A. The reopening of his case by the Local Board for reexamination gave appellant a second chance to avoid his prior failure in this regard, but such was not to be accomplished. He ignored his procedural rights for the second time and then refused to submit to induction. It is true that the second classification superseded the prior classification and that subsequent thereto was when appellant must necessarily have acted to properly raise the questions now presented by him to this Court.

See:

32 C. F. R. 1625.11, 1625.12, 1625.13;

Evans v. United States, 252 Fed. 509, 511 (9 Cir. 1958);

Hinkle v. United States, 216 F. 2d 8, 9 (Footnote 3) (9 Cir. 1954);

Goetz v. United States, 216 F. 2d 270, 272 (9 Cir. 1954).

A final reference might be noted to *Kretchet v. United States*, 284 F. 2d 561 (9 Cir. 1960). In that case this Court *was able to consider* the questions which were raised by the appellant inasmuch as he had availed himself of all proper remedies at the administrative level. It is interesting that in making its ultimate finding, that inasmuch as it was unable to determine exactly what grounds the Appeal Board had used to decide the appellant's classification, it would reverse the conviction, the Court cited as authority, among other cases, "*United States v. Balogh*, 157 F. 2d 939, 943-944 (C. A. 2d 1946), judgment vacated on other grounds, 329 U. S. 692. . . ." The very grounds on which *Balogh* was vacated, if present in *Kretchet* would have necessitated a contrary decision there, in conformity with the *Supreme Court opinion*, rather than with the lower court's holding. It is submitted that the instant case presents exactly such a situation.

Appellant has argued that:

"The attitude of the Selective Service System and of the court below, concerning whether there was a basis in fact for the classification was grounded upon error . . . it ignores the teachings of *Dickinson v. United States*, 346 U. S. 389 (1953) . . . Also ignored are the teachings of *Ashauer v. U. S.*, (9th Cir., 1954) 217 F. 2d 788, 791; *Blevins v. U. S.*, (9th Cir., 1954) 217 F. 2d 506, 508; *Brown v. U. S.*, (9th Cir.,

1954) 216 F. 2d 258; *Chernekov v. U. S.*, (9th Cir., 1955) 219 F. 2d 721, 725; *Franks v. U. S.*, (9th Cir., 1954) 216 F. 2d 266, 269; *Hacker v. U. S.*, (9th Cir., 1954) 216 F. 2d 575, 576. (*sic*)."

Appellee admits that the Board and court did ignore these decisions, and properly so because of their inapplicability to the case at bar. Each of the latter group of cases cited by appellant involves a situation where the merits of the contention were ripe for consideration by the trial court. The defendants therein had each fully exhausted their administrative remedies and were in a position to present their case to the court for determination. These cases have no bearing on the key issue before this court.

Similarly *in apropos* are the cases cited on page 11 of Appellant's Brief regarding the applicability of cases involving ministerial exemptions to those persons seeking deferments as conscientious objectors. In *White v. United States*, 215 F. 2d 782 (9th Cir., 1954), this court held that a distinction must be drawn between a claim of ministerial status and a claim of conscientious objectors, because the one is and the other is not susceptible of objective proof. The court in *White* expressly agreed with *United States v. Simmons*, 213 F. 2d 901 (7th Cir., 1954), *revd. on other grounds* 348 U. S. 397 (1954), the one case which appellant cites as being *contra* to the position appellant now urges upon this court. Wherein does appellant thus find basis for urging the rationale of these cases or of *Dickinson (supra)*, *et al.* (ministerial deferment cases) as controlling the court's present decision? No claim has ever been made that the board should have classified appellant IV-D, as a minister.

Although appellee does not intend to argue the underlying merits of appellant's contention, at any length, it is submitted that even if appellant *had* properly proceeded with all administrative steps, his specification of error would still be untenable-and not subject to review under the doctrine of *Estep v. United States*, 327 U. S. 114 (1945), wherein the court pointed out at page 122, that:

"The courts are not to weigh evidence to determine whether the classification made by the local boards was justified. The decisions of the local boards made in conformity with the regulations are final even though they may be erroneous. The question of jurisdiction of the local board is reached only if there is no basis in fact for the classification which it gave to the registrant."

And in *Witmer v. United States*, 348 U. S. 375 (1954), the court added at pages 380-381:

"The courts may not sit as super draft boards, substituting their judgment on the weight of the evidence for the judgment of the designated selective service agencies."

See:

United States v. Mohammed, 288 F. 2d 236 (7th Cir., 1961), citing and following *Witmer* (*supra*).

It is respectfully submitted that appellant has not met and cannot meet the burden of establishing the basis for his appeal. He has alleged a "prima facie showing" that his classification should have been other than what it was, yet he had no standing to make even that unsupported contention. The scope of judi-

cial review of a selective service classification, is at best, very limited, even when one has properly availed himself of all prerequisites necessary to open the door of contention. However, that door has been closed and locked here, appellant himself having thrown away the key.

Conclusion.

1. Appellant did not exhaust his administrative remedies within the framework of the Selective Service System.
2. Appellant had no standing to seek judicial review of his selective service classification.
3. There were no errors of law in the trial court.
4. The judgment of the trial court should be affirmed.

Respectfully submitted,

FRANCIS C. WHELAN,
United States Attorney,

THOMAS R. SHERIDAN,
*Assistant United States Attorney,
Chief, Criminal Division,*

J. BRIN SCHULMAN,
*Assistant United States Attorney,
Attorneys for Appellee
United States of America.*

No. 17473

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

JAN EMIL DONATO,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

(1962 Appeal)

FRANCIS C. WHELAN,
United States Attorney,

THOMAS R. SHERIDAN,
*Assistant United States Attorney,
Chief, Criminal Section,*

J. BRIN SCHULMAN,
Assistant United States Attorney,

600 Federal Building,
Los Angeles 12, California,

*Attorneys for Appellee,
United States of America.*

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No. 17473

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

JAN EMIL DONATO,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

(1962 Appeal)

I.

JURISDICTIONAL STATEMENT.

The "Brief of Appellee", in the first appeal (1961) of this case, completely set out the Jurisdiction of the District Court and of this Honorable Court in this action and the Jurisdictional Statement contained therein is respectfully incorporated in this Brief.

The following Briefs were filed in the 1961 appeal:

Appellant's Opening Brief;

Brief of Appellee;

Appellant's Reply Brief;

Appellee's Reply Brief;

Appellant's Reply to Appellee's Reply Brief.

Thereafter, on February 14, 1962, this Court rendered its opinion which concluded as follows:

“ . . . Reversed and remanded with instructions that the judgment be set aside and for further proceedings in accordance with this opinion.”

Donato v. United States, 302 F. 2d 468 (9th Cir. 1962).

On April 24, 1962, the case was called in the United States District Court for the Southern District of California, before the Honorable William M. Byrne, the same Judge who had presided over the original trial on May 1, 1961. Judge Byrne caused a “Certificate to the Court of Appeals” (hereinafter referred to as Certificate) to be filed and ordered a new and second judgment to be entered finding appellant guilty as charged; and once again appellant was sentenced to the custody of the Attorney General for a period of three years. It was further stated in the Judgment:

“ . . . that in compliance with the direction of the Court of Appeals, in its opinion of February 14, 1962, this judgment is rendered for the purpose of preserving the right of further appellate review.

This judgment is in lieu of, and not in addition to, the judgment rendered by this court on May 22, 1961.” [C. T. 13.]¹

Jurisdiction of the District Court was again based on Title 18, United States Code, Section 3231, and Title 50, United States Code, Appendix, Section 462.

Jurisdiction of this Court is again based on Title 28, United States Code, Sections 1291 and 1294.

¹C. T. refers to Clerk's Transcript of Record.

II.

STATEMENT OF THE CASE.

In this Court's opinion (*Donato v. United States, supra*), after discussing the contentions of appellant as to whether or not there was basis in fact for the local board's classification of appellant in Class 1-A, attention was directed to the applicability of the "exhaustion of remedies" rule as a bar to appellant's standing to assert the invalidity of his classification as a defense in this case. After reference to appellant's assertion that such rule was not inflexible, this Court recognized it had strictly adhered to the application of the rule in cases:

" . . . where failure to appeal appeared to be a deliberate and intentional rejection of the administrative review which had been provided. . . ."
(p. 470.)

But it was further stated by the Court that:

" . . . An area does remain however, within which relaxation of the rule can be found to be just and proper. Each case thus presents the question whether the particular circumstances which exist make the case an appropriate one for the relaxation of a strict adherence to the rule."
(p. 470.)

Following a brief discussion of the reasons advanced by appellant for his not having proceeded with an administrative appeal, the Court pointed out, at page 470, that:

" . . . The balancing of the competing considerations which a case presents should take place at the trial level where the true facts may be found and their significance weighed. . . ."

noting further:

“ . . . the record does not disclose that such consideration was given in this case. . . . Under these circumstances, an expression by the district court is essential to informed appellate review. Accordingly, this case must be remanded to the district court for . . . decision upon the question whether, under all of the circumstances of this case, a relaxation of the exhaustion of remedies rule would be just and proper.” (P. 470.)

This Court further ordered the District Court to decide the applicability of the rule and to express its opinion accordingly and to enter a new final judgment “ . . . preserving rights to further appellate review.” (P. 470.)

Judge Byrne responded to the order of this Court and expressed this opinion and conclusion that:

“ . . . This court did consider the testimony and evidence presented by defendant, balanced the competing considerations, and concluded that under all of the circumstances of this case, a relaxation of the exhaustion of remedies rule would not be just and proper. This court has reviewed the records and files of the case, including the reporter’s transcript, and presently is of the same opinion.” [Certificate, C. T. 11.]

After further discussion of the testimony and evidence in the case, Judge Byrne concluded his Certificate:

“ . . . It is clear that the defendant’s failure to appeal administratively was deliberate and intentional”. [C. T. 12.]

Appellant has framed the questions before this Court as follows (A. O. B. 1962, 2-3):²

“I

“Was there a legal basis for the conclusion of the trial judge at the remand hearing, April 24, 1962, to wit: That the defendant was not to be believed on the issue of defendant’s avowed intention to perfect an administrative appeal?”

“II

“Is a selective service system appeal essential, as an exhaustion of administrative remedies in a criminal case?”

and has stated the Specifications of Error as:

“I

“The district court erred in concluding it had a basis in fact for finding appellant lied.

“II

“The district court erred in not considering appellant’s defenses on their merits.”

The question now before this Court, although framed by appellant in the context of a “sufficiency of the evidence” attack on Judge Byrne’s findings, is as stated by this Court in its opinion, to wit:

“Whether the particular circumstances which exist make the case an appropriate one for relaxation of or strict adherence to the rule.” (p. 470.)

²“A. O. B. 1962” refers to Appellant’s Opening Brief, 1962 Appeal.

Appellee has not conceded the “basis in fact for classification” issue, but rather views it as being subordinate to the immediate pre-occupying question.

III.

STATEMENT OF FACTS.

Appellant's Opening Brief (1961 Appeal) and the Brief of Appellee (1961 Appeal) together contain a detailed statement of the original factual situation as presented to this Court in 1961. Other than the expression of Judge Byrne, in his Certificate [C. T. 10-12], as to his reconsideration of the records and evidence in the case and his conclusions therefrom, there are no new facts to be presented to this Court in the instant appeal.

IV.

SUMMARY OF ARGUMENT.

Appellee's argument heretofore presented in this case, coupled with the statement of conclusions of the District Judge in his Certificate, adequately support appellee's position that this appellant, under all of the circumstances appertaining to his particular status, has no standing to assert the invalidity of his classification, due to his failure to exhaust his administrative appellate remedies with the Selective Service System; and the judgment of the trial court should be affirmed.

V.

ARGUMENT.

Preliminarily, it is respectfully requested that this argument be viewed as a supplement to that contained in appellee's two prior briefs in the 1961 appeal.

A. There Is Substantial Evidence to Support Judge Byrne's Conclusion That "Under All of the Circumstances of This Case, a Relaxation of the Exhaustion of Administrative Remedies Rule Would Not Be Just and Proper."

Although appellant has framed his attack on Judge Byrne's determination that "under all of the circumstances of this case a relaxation of administrative remedies rule would not be just and proper" [C. T. 11] in phraseology of ". . . lack of legal basis for the conclusion" (A. O. B. 1962, 2) and ". . . the district court erred in concluding it had a basis in fact for finding appellant lied"; such language is confusingly similar to the "basis in fact" attack on appellant's classification by the Local Board. Since such language has "words of art" meaning in Selective Service cases it might be more appropriate to recognize that appellant was contending that there was insufficient evidence, not to support the conviction *per se*, but to support the trial court, sitting as a trier of fact, in its findings as to the credibility of appellant in light of all of the circumstances of the case.

Appellant is asking this court to place itself in the District Judge's position of fact finder despite the com-

ment in the earlier *Donato* opinion, *supra*, at page 470, that:

“ . . . The balancing of the competing considerations which a case presents should take place at the trial level where the true facts may be found and their significance weighed.”

Strangely enough appellant points out that:

“ . . . The *only* evidence to support the trial court's conclusion that Donato lied is that he didn't appeal the *first* time” (A. O. B. 6, 1962.) (Emphasis added.)

Although appellant's testimony is clear that he was first classified 1-A on February 19, 1958 and that he was aware of his right to appeal at the time and to request a personal appearance before the Board, and that he *chose* not to exercise those rights at that time [R. T. 31-32],³ this prior failure to appeal was not even mentioned by Judge Byrne in his Certificate to support his conclusion that:

“ . . . Defendant's failure to appeal administratively (from the *second* classification of July 13, 1960) was deliberate and intentional.”

Judge Byrne *did* speak of the following facts to support his determination [C. T. 11-12]:

(1) “This is not a case where a man was unexpectedly pressed into emergency service to fight fires, thus temporarily upsetting his pattern of life . . .”;

³R. T. refers to Reporter's Transcript of Proceedings, 1961 Appeal.

(2) “. . . With full knowledge that he had 10 days from July 13, 1962, to appeal . . .”;

(3) “. . . and the further knowledge that his contract of employment with the Forestry Service made him subject to call at any time, the defendant did not file a notice of appeal . . .”

(4) “. . . even when the Forestry Service notified him to get his affairs in shape, two days before the actual call to his employment, he did nothing . . .”

Judge Byrne further stated that: “This court has reviewed the records and files of this case, including the reporter’s transcript . . .” and was still of the same opinion as he had been at the trial, that:

“. . . under all of the circumstances of this case a relaxation of the exhaustion of administrative remedies rule would not be just and proper.”
[Certificate, C. T. 11.]

The records and files of this case also disclose the following evidence:

(1) That appellant had received the second notification five days prior to the time he left to fight fires [R. T. 32];

(2) That appellant understood and knew that “. . . a letter will usually suffice for any type of action of this type . . . (re appealing the classification or requesting a personal appearance) to make a request” [R. T. 33];

(3) That despite such knowledge, no effort was made to appeal the classification even after returning from fire fighting, albeit after the 10 day period; or to re-

quest an extension of the period for taking an appeal due to extenuating circumstances;

(4) That appellant claimed his delay in appealing his classification during the interim between receipt of the notice and the time when he left to fight fires, was for the reason that:

“ . . . [he] . . . had gotten further information on appealing this particular instance, and was preparing information to *send* an appeal in . . .” [R. T. 33.] (Emphasis added).

This despite the fact that at a personal appearance before the board on July 13th, the very day the notice was sent out, appellant declined to furnish additional information to the board [R. T. 34-35]; and responded to a cross-examination question during the trial as follows:

“Q. Did you make any attempt *thereafter* to submit additional information to try to sway the board, or to show the board of your good faith in your desire to be classified as 1-0? A. I thought their questions covered it fully and there was no other necessity.” [R. T. 35.] (Emphasis added.)

Thus on July 13th, appellant had no intention to submit additional information to the board; yet now claims the trier of fact had no “basis” for disbelieving testimony that the reasons for his not appealing within the 10 day period was because he was *then* “preparing information to send an appeal in.”

It is apparent that appellant was not quite the “inexperienced young man” as characterized in Appellant’s

Opening Brief (1962 appeal) at page 15. Judge Byrne had substantial and sufficient “basis” to support his conclusion, notwithstanding the closing comment in Appellant’s Opening Brief (1962 appeal) at pages 15 and 16 that:

“ . . . the omission occurred not only without evidence of ill intent but where evidence of good intent is disbelieved *solely* on the basis of testimony, regarding some other and quite distinct act, in itself not casting any doubt on the character of the witness.” (Emphasis added.)

In addition to the aforementioned discussion, it must be noted that the trier of fact has the axiomatic right to judge the credibility of a witness in the light of all of the evidence as well as his demeanor while testifying. *Stopelli v. United States*, 183 F. 2d 391 (9 Cir. 1950).

It is respectfully submitted that the evidence, when viewed in the light most favorable to the Government, supports Judge Byrnes’ conclusions in his certificate as well as the judgment in this case.

Glasser v. United States, 315 U. S. 60 (1941);
Sandez v. United States, 239 F. 2d 239 (9th Cir. 1956);

Robinson v. United States, 262 F. 2d 645 (9th Cir. 1959);

Young v. United States, 298 F. 2d 108 (9th Cir. 1962).

B. The "Exhaustion of Administrative Remedies Rule" Is Applicable to Selective Service Cases and Should Be Relaxed Only Under Extremely Exceptional and Unusual Cases.

Appellant's argument in favor of discarding established administrative procedures which have been set up by law and regulations, implicitly presupposes three premises:

- (1) That the Supreme Court has never declared the exhaustion of remedies rule to be applicable to Selective Service cases (A. O. B. 1962, 7);
- (2) That neither Ninth Circuit decisions nor those of the other circuits are compelling authority on this question;
- (3) That the only key step in the administrative process which should be considered, if any at all, in testing whether or not a registrant has exhausted his administrative remedies, is the *final step* in the administrative procedures (*i.e.*, refusing to report for induction) and all intermediate steps ". . . are optional. . . . They are like rungs of a ladder and that arriving at the end of the ladder is *the essential step* to 'complete the Selective Service process' ." (A. O. B. 1962, 13) (Emphasis added.)

Premise No. (1):

The Supreme Court has, in each of the following cases, ruled on the application of the exhaustion of remedies rule to Selective Service cases:

United States v. Falbo, 320 U. S. 549 (1944);
Estep v. United States, 327 U. S. 114 (1945);
United States v. Balogh, 329 U. S. 692 (1946).

Although appellant now claims that the court in *Falbo, supra*, did not even refer to exhaustion, there is little doubt of what the Court meant when it said:

“Surely if Congress had intended to authorize interference without that process by intermediate challenges of orders to report, it would have said so. . . .” (*Falbo, supra*, p. 551).

The Court was clearly speaking in terms of the requirement that one must exhaust the administrative steps in the Selective Service System before judicial review of the propriety of the classification would be justified.

And in the very language from *Billings v. Truesdale*, 321 U. S. 540 (1944), cited by appellant (A. O. B. 1962, 8), the Court restated what it meant in *Falbo, supra*, when it said:

“‘Moreover, it should be remembered that he who reports at the induction station is following the procedure outlined in the Falbo case for the exhaustion of his administrative remedies. Unless he follows that procedure he may not challenge the legality of his classification in the courts.’”

and similarly the language from *Estep, supra* (A. O. B. 1962, 11):

“‘In Falbo v. United States . . . We found no provision for judicial review of a registrant’s classification prior to the time when he had taken *all* the steps in the selective service process and had been finally accepted by the armed services. . . .’”

“‘In the Falbo case the defendant challenged the order of his local board before he had exhausted his remedies. Here these registrants had preserved their administrative remedies to the end’ (327 U. S. at 123).”

For the reasons stated herein as well as those presented in Brief of Appellee (1961), pages 13-17, it is submitted that "Premise No. (1)" must fall.

Premise No. (2):

There is ample consistent authority in this and other circuits for the application of the exhaustion rule to this case, and thus negate "Premise No. (2)". For examples of such cases see:

First Circuit:

Swaczyk v. United States, 156 F. 2d 17, 19 (1st Cir. 1946); *cert. denied* 329 U. S. 726 (1946);

Second Circuit:

Watkins v. Ruppert, 224 F. 2d 47 (2nd Cir. 1955).

Third Circuit:

Palmer v. United States, 223 F. 2d 893 (3rd Cir. 1955).

Fourth Circuit:

United States v. Miller, 143 Fed. Supp. 712 (D. C. W. Va., 1956), *aff'd* 239 F. 2d 148 (4th Cir. 1956).

Seventh Circuit:

United States v. Rumsa, 212 F. 2d 927 (7th Cir. 1954);

United States v. Nichols, 241 F. 2d 1 (7th Cir. 1957).

Eighth Circuit:

Johnson v. United States, 126 F. 2d 242, 247 (8th Cir. 1942);

Glover v. United States, 286 F. 2d 84 (8th Cir. 1961).

Ninth Circuit:

Olinger v. Partridge, 196 F. 2d 986 (9th Cir. 1952);

Williams v. United States, 203 F. 2d 85 (9th Cir. 1953);

Mason v. United States, 218 F. 2d 375 (9th Cir. 1954);

Evans v. United States, 252 F. 2d 509 (9th Cir. 1958);

Moore v. United States, 302 F. 2d 929, 930 (9th Cir. 1962), decided three months after *Donato v. United States*, 302 F. 2d 468 (9th Cir. 1962).

In all of these cases the issue has not been "Is there such a rule," but rather the ultimate question is as framed in *Glover, supra*, which case recognized but did not apply the doctrine to that particular factual situation. The court said at pages 90-91:

"We adhere to the general rule as to the necessity for exhaustion of administrative remedies in order to obtain a judicial review, and are of the opinion that such rule is generally applicable and usually necessary. However, we are of the view that such general rule is not absolute, inflexible and without exception, *but that it is to be relaxed only under extremely exceptional circumstances*. The factual situation presented in *this* case is appropriate for and requires the relaxation of such rule." (Emphasis added.)

Premise No. (3):

Appellant's contention that “. . . an administrative appeal is but an intermediate ‘rung’ and otherwise concededly optional . . .” also falls by virtue of this circuit's opinions dealing with registrants' failures to pursue one of the many administrative steps, ranging from appeals of classifications to actual reporting for induction. For examples of particular cases see: *Failure to appeal classification cases*:

Evans v. United States, 252 F. 2d 509 (9th Cir. 1958);

Prohoroff v. United States, 259 F. 2d 694 (9th Cir. 1958).

Failure to report to local board to receive instructions to proceed to a place of employment for civilian work; or failure to report to such place of employment:

Bjorson v. United States, 272 F. 2d 244 (9th Cir. 1959), cert. denied 362 U. S. 949 (1960).

VI.

CONCLUSION.

This court has sought further information from the trial court as to “whether or not under all of the circumstances of this case, a relaxation of the exhaustion of remedies rule would be just and proper” (*Donato v. United States*, 302 U. S. 468 (9th Cir. 1962).) The response has been that it would not.

It is respectfully submitted that appellant's situation does not provide a proper vehicle for other than a strict application of the rule. There was no fault on the part of the Selective Service System and the position in which appellant finds himself is due solely to his own

indifference or willful disregard of established procedures. A contrary ruling in this case would provide a registrant with a method for circumventing proper and orderly administrative procedure and would permit registrants to retain for themselves the choice of presenting pertinent facts to the courts in the first instance and thereby substantially interfere with the administration of the Universal Military Training and Service Act.

The Judgment of the trial court should be affirmed.

Respectfully submitted,

FRANCES C. WHELAN,
United States Attorney,

THOMAS R. SHERIDAN,
*Assistant U. S. Attorney,
Chief, Criminal Section,*

J. BRIN SCHULMAN,
*Assistant U. S. Attorney,
Attorneys for Appellee,
United States of America,*

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

J. BRIN SCHULMAN,
Assistant U. S. Attorney.

IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT.

JAN EMIL DONATO,		<i>Appellant,</i>			
	vs.				
UNITED STATES OF AMERICA,		<i>Appellee.</i>		}	No. 17473.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

APPELLANT'S REPLY BRIEF.

J. B. TIETZ,
410 Douglas Building,
South Spring and Third Streets,
Los Angeles 12, California,
Attorney for Appellant.

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IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT.

JAN EMIL DONATO,	}	
vs.		
UNITED STATES OF AMERICA,	}	
<i>Appellant,</i>		
<i>Appellee.</i>		

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

APPELLANT'S REPLY BRIEF.

Appellee seeks to bar consideration of appellant's two points on appeal by interposing the rule of exhaustion of administrative remedies.

This is a useful rule but, being court-created its harsh result may be disregarded on suitable occasion. Such has been the action of many courts, including the Supreme Court. After showing this appellant will present reasons why the rule should not be applied to his appeal.

I.

Exhaustion Rule Has Been Relaxed.

Appellee's brief devotes itself *solely* to the exhaustion point. This is an implicit admission that if its argument on exhaustion is not acceptable to this Court it is conceded that the conviction was based upon an invalid board order; in other words that there was no basis in fact for denying Donato a conscientious objector classification and/or that one or more illegal bases were used in the classification process.

This situation, then, is closely analogous to that in a case very recently decided by the Eighth Circuit. In *Glover v. United States*, 286 F.2d 84, 8th Cir., 1961, the Court said:

"In view of the Government's concession, on this appeal, that there was no basis in fact for the 1-A classification of the defendant in this case, a detailed discussion based upon a careful analysis of the draft board's files and records as to this registrant is unnecessary."

The Eighth Circuit then went on to consider the government's exhaustion argument and, finding it wanting, reversed Glover's conviction.

The Eighth Circuit, it is to be observed, is leading the way in going by the "feel" of the truth in the case, that is, justice, rather than abruptly shutting the door in the face of a young man, unadvised, who has not strictly followed the exhaustion rule. In its last two draft case decisions it was confronted with the two usual type situations of failure to exhaust administrative remedies in the Selective

Service System: failure to report and failure to appeal. In both opinions it chose to decide the cases on their merits and to not apply the rule.

The first sentence of that court's opinion in *Batterton v. United States*, (8 Cir., 1958) 260 F.2d 233, shows that the Selective Service Registrant had failed to complete the administrative process by refusing to appear at the induction station. The Court decided the case on the merits, making no point at all of the failure to exhaust element involved. Its second and very recent decision, was *Glover v. United States*, (8 Cir., 1961) 286 F.2d 84, where the court discussed this element at some length and concluded the failure to appeal the last classification notice was not a bar to a determination of the merits.

Appellee's Brief argues the exhaustion point as if the rule is inflexible, as if it never has exceptions. This is an incorrect view of the cases, including the decisions of this court.

This court (Ninth Circuit), even when invoking the rule has explicitly pointed out that despite of the rule it had considered the merits but found the appellant's record wanting. See *Rowland v. United States*, (9th Cir., 1953) 207 F.2d 621: "Appellant having failed to appeal from his classification, we are not required to consider this contention [no basis in fact]. However, we have considered it and reject it for the following reasons: * * *" (625). Compare *Palmer v. United States*, 223 F.2d 893 (3 Cir., 1955), a four to three *en banc* decision. Palmer had refused to avail himself of *any* administrative procedure or remedy (he was what the pacifists term an "absolutist"), yet

three appellate judges favored his appeal viewing the failure to consider his merits exalting "form over substance" (897). The three-judge minority also pointed out: "The courts of appeal and district courts have been divided as to whether exhaustion of all administrative remedies must be shown in these selective service cases." (901) and cited a string of cases to show this.

The Supreme Court, in many situations, has ignored the rule where it appeared the cases should be decided on the merits: we read in *U. S. v. Abilene & So. Ry. Co.*, 265 U.S. 274, 282 (1924): "* * * Whether it (the court) should have denied relief until all possible administrative remedies had been exhausted was a matter which called for the exercise of its judicial discretion."

In *Levers v. Anderson*, 326 U.S. 219 (1945), the court said: "[T]his rule does not automatically require that judicial review always be denied where rehearing is authorized but not sought. This is shown by our past decisions (citing cases) from which we see no reason to depart." Also see *Aircraft & Diesel Equipment Corp. v. Hirsch*, 331 U.S. 752, 773 (1947); *Eccles v. Peoples Bank*, 333 U.S. 426, 434 (1948).

Then there are the cases where the agency had acted beyond its jurisdiction (as Donato claims): *Gonzales v. Williams*, 192 U.S. 1, 48 L. Ed. 317 (1904); *Skinner and Eddy Corp. v. U. S.*, 249 U.S. 557 (1919); *P. U. C. v. United Fuel Gas Co.*, 317 U.S. 456 (1943); *Ill. Comm. v. Thompson*, 318 U.S. 675 (1943).

Additionally there are the cases where the agency had entered final order and only administrative reconsider-

ation or appeal remains (discretionary for court to take jurisdiction). *Prendergast v. N. Y. Tel. Co.*, 262 U.S. 43, 48 (1923); *U. S. v. Abilene & S. R. Co.*, *supra*; *Levers v. Anderson*, *supra*; Fed. Adm. Pro. Act, Sec. 10 (c), and finally, those where, as in Donato's case the agency or government brings the court proceeding civilly or criminally and the defendant merely defends against an invalid order: *F. P. C. v. Panhandle E. Pipe Line Co.*, 337 U.S. 498 (1949).

Other courts have turned a blind eye to this rule. In passing it is well to note that even with respect to acts considered jurisdictional, such as filing an appeal within the 10 day period the courts have softened the rigor of the rule to prevent injustice. See *Belton v. United States*, 259 F.2d 811 (D.C. Cir., 1958); *Blunt v. United States*, 244 F.2d 355 (D.C. Cir., 1957); *West v. United States*, 222 F.2d 774 (D.C. Cir., 1954); *Williams v. United States*, 188 F.2d 41 (D.C. Cir., 1951); *Boykin v. Huff*, 121 F.2d 865 (D.C. Cir., 1941); but see *Wilkinson v. United States*, 28 Law Week. 2250.

In *Belton*, *supra*, the court cites *Christoffel v. U. S.*, 190 F.2d 505, 590 (C.A. D.C.):

“[I]n a criminal case in which a sentence of imprisonment is involved, there is a public interest against denial of consideration on appeal of substantial questions as to the lawfulness of conviction. For if the conviction is erroneous it is abhorrent to justice that a defendant shall nevertheless suffer such a penalty for the crime charged. The Supreme Court has on this account vested the United States Court of Appeals with discretion to consider and determine ques-

tions on appeal notwithstanding failure of counsel to make due compliance with the usual procedural requirements. This discretion may be exercised either on application of a party or by the court *sua sponte*."

How much more applicable is this humane principle to a situation where a young layman like Donato, not his counsel, is the one who didn't comply with the prerequisite "requirements."

The chief purpose of the doctrine of exhaustion of administrative remedy is to relieve the courts of a burden better borne by specialists in the various administrative agencies.

The doctrine was not formulated to deprive young men, unassisted by counsel, of their day in court: cf. *Cox v. Wedemeyer*, (9th Cir., 1951) 192 F.2d 920, where it was pointed out that these draft registrants are "unskilled in legal procedure * * * and none of them represented by counsel." (922-923). Also compare *Berman v. Craig*, (3 Cir., 1953) 207 F.2d 888, where The Third Circuit declared: "Registrants are not thus to be treated as though they were engaged in formal litigation assisted by counsel (891)."

The doctrine of exhaustion of administration remedies should never be considered inflexible. Many special circumstances excuse the registrant. This general proposition was somewhat recently restated in *United States v. Harvey*, 131 F. Supp. 493:

"* * * the rule that administrative relief must be exhausted before resorting to the courts did not originate in the constitution, or any statute, but came into being simply as a point of judicial policy adopted

by the courts, and the courts do not recognize that it must always be applied in hidebound fashion. The rule will be passed by, if there is good reason for making an exception, and that has been done by both the federal and state courts." (496).

So, in *U. S. ex rel. Filomio v. Powell*, 38 F. Supp. 183, the court observed:

"Evidence is conflicting as to whether Filomio demanded the questionnaire in order that he might perfect his appeal. We do not feel that it was readily available, and hence his omission in this respect was beyond his control."

We believe our situation is analogous to the Filomio situation in that the firefighting duty made the perfecting of the appeal not "readily available." This we will argue next.

II.

Donato's Case Presents Reasons for Considering It an Exception to the Rule.

The circumstances connected with appellant's failure to appeal are as follows:

The local board mailed SSS Form No. 110 (post card notice of classification, also containing advice of appellate deadline) on July 13, 1960 (Ex. 12). The law gives the registrant ten days from the date of mailing the notice to file with the board a written Notice of Appeal. It must be written; a phone call will not suffice. Donato therefore had to the close of business on July 23rd to file such a written Notice. Ordinarily the reasonably prudent per-

son does not wait to the last minute to perform an act that is important to him. On the other hand people ordinarily use nearly all the time available for the purposes of reflection and for improvement of written presentation. Even lawyers, who understand the jurisdictional factor involved in certain filings give themselves until the last two or three days.

In any event it is clear that Donato had made up his mind "to take an appeal within the 10 days" (T. 29), but that he was notified he should get ready for a fire in the Angelus National Forest and that he was called to fight this fire on the 20th and was kept in this area fighting fires until the 28th (T. 30).

His statement, on cross-examination (used by appellee in its brief pp. 6-7) that he chose not to exercise his right to appeal referred to his February, 1958, opportunity *not* to his July, 1960, opportunity. Appellant flatly stated, referring to the 1960 opportunity that he *had* made up his mind to take an appeal. He showed (R. T. 32-33) that in February, 1958, he was ignorant of the appeal process but with respect to July, 1960, "I had gotten further information on appealing this particular instance, and I was preparing information to send an appeal in."

It is easy to conclude that appellant should have acted as soon as he decided to appeal for we, as long experienced persons know that the unforeseen frequently robs us of the time allotted by rules, as well as that allotted by heredity and actuarial statistics. It too is easy to treat this registrant as administrative agencies, dealing with business

men who are generally advised by counsel, are empowered to treat dilatory citizens.

We argue, nevertheless, that selective service registrants are not experienced business men, are not advised by counsel¹ and are not to be so treated and that when a conflict in duty arises, as here, a neglect of one's personal affairs for a public duty is to be condoned.

Suppose he was a national guardsman? Suppose he was a public firefighter? Just where is the line to be drawn in this kind of a situation?

Although the courts properly affirm a confidence in the court-made rule of exhaustion of administrative remedies it is also a proper part of the appellate process to give a well-meaning young man a chance where he is deserving. We have already briefly quoted from some of the cases wherein this and other courts have gone out of their way to note that these registrants are not like the usual adult dealing with an administrative agency: *Cox v. Wedemeyer*, (9th Cir., 1951) 192 F.2d 920, where it was pointed out that these draft registrants are "unskilled in legal procedure * * * and none of them represented by counsel." (922-923); *Berman v. Craig*, (3 Cir., 1953) 207 F.2d 888, where the third circuit declared: "Registrants are not thus to be treated as though they were engaged in formal litigation assisted by counsel (891)."

1. § 1624.1 (b) of 32 C.F.R. specifically forbids counsel at the Appearance Before Local Board: "And provided further, that no registrant may be represented before the local board by anyone acting as attorney or legal counsel."

III.

Clear Error of Law Excuses Failure to Exhaust Remedies.

Lack of due process is referred to as excusing the failure to exhaust remedies by Judge Frank in the Selective Service case of *Schwartz v. Strauss*, 206 F.2d 767.

It is the basis of cases like *Skinner Corp. v. United States*, *supra*, and the *United Fuel Gas* case, *supra*, which relieved a party of the necessity of exhausting administrative remedies.

The point seems to be recognized in *Estep v. United States*, 1945, 66 S. Ct. 423, in discussing an attempt to induct a congressman or classify a person as available for induction because he is a Negro, Jew or German, of which the Court says:

“In all such cases its action would be lawless and beyond its jurisdiction.”

It is the holding in *United States v. Donovan*, 178 F.2d 876 (C.A. 7th, 1949), a parole case excusing exhaustion where lack of due process is shown.

As noted in the paragraph above in *Estep* the Supreme Court considered the board acted beyond its jurisdiction when it classified without basis in fact. The Fifth Circuit in *Wiggins v. United States*, 1958, 261 F.2d 113, sums up this point in this manner:

“Dickinson, following *Estep*, has established beyond any argument at this point that ‘courts may properly insist [that when a local board denies a claimed exemption] there must be some proof that

is incompatible with the registrant's proof of exemption'; a local board loses jurisdiction if there are insufficient facts in the record to support its conclusion".

It was on the theory of an allegation of lack of due process in military segregation that a Negro was allowed by the Eastern District of Pennsylvania to challenge a I-A classification without exhausting his administrative remedies in *United States v. Tomlinson*, 94 F. Supp. 854 (1953).

It was the basis of the decision of the same court in hearing a veteran's preference case even without exhaustion of administrative remedies:

"Where a statute, which commands an official of the government to perform, or prohibits him from performing an act in a particular situation is so clear as to be free from doubt as to what it prescribes, a court will enjoin a violation of the Act even though the victim has not pursued his administrative remedies." *Brainer v. Wallin*, 79 F. Supp. 506, 508 (1951).

In *Wettre v. Hague*, 74 F. Supp. 396, a district court refused an injunction in a veteran's preference case because there had been no exhaustion of administrative remedies. Then the Supreme Court in *Sullivan v. Hilton*, 334 U.S. 323, decided the substantive rule contrary to that applied by the Civil Service Commission; so the Court of Appeals in *Wettre v. Hague*, 168 F.2d 825 (C.A. 1st, 1948), held that since the administrative action was a clear error of law, "there is no longer any occasion for the re-

quirement that they exhaust whatever administrative remedies they may have.”

In *Ex parte Fabiani*, 105 F. Supp. 139 (1952), E.D. Penna., a medical student in Italy was allowed to defend against a I-A classification though he had not exhausted his administrative remedies. (He not only had not appealed, but he had not reported for physical examination or for induction.) The Court cited case after case where lack of due process and clear error of law were defenses to prosecution for selective service violations and concluded that exhaustion was excused under these cases.

In addition to the numerous cases cited in the *Fabiani* case, in which lack of due process and clear errors of law resulted in declaring classifications invalid and preventing convictions for their violation, many could be added because there are over 200 reported selective service cases since Korea, wherein one or more reasons have been given for a judgment of acquittal, or for reversal of a judgment of conviction.

In *United States v. Gatrell*, S.D. Fla., _____ F. Supp. _____ (No. 10,512 decided February 24, 1960), Judge Register acquitted on the merits after pointing out:

“Now it is clear from those facts and from the testimony that the defendant failed to exhaust his administrative remedies. In effect, it is the Government’s contention in this case that, by reason of such failure, the defendant is precluded from all defense herein.

“In numerous cases it is said that ordinarily a failure to exhaust administrative remedies precludes

the raising of a question of the propriety of the draft board's action. The Courts have uniformly held that the Courts are not to weigh the evidence to determine whether the classification made by a Local Board was justified and, further, that the decisions of Local Boards made in conformity with the regulations are final, even though they may be erroneous. However, Courts have also recognized as a fact that in some cases there is justification in relaxing the general rule above stated, and that the question of jurisdiction of a Local Board is reached only if there is no basis in fact for the classification which it gave to the registrant. This question is one of law for the Courts.

"This Court is of the opinion that the factual situation in a case may provide such justification, and that if the general rule heretofore referred to were to be applied absolutely and inflexibly and without exception, that the result might be so harsh as to be contrary to our concept of justice in the trial of criminal cases in our Courts. This has been in effect recognized in this Court or in this District, and I refer specifically to Criminal Case No. 10,335, United States of America v. Archie Young, which was decided by Judge Simpson."

CONCLUSION.

It is thus evident that many courts have seen fit to excuse a failure to exhaust administrative remedies and particularly so when the party is young and inexperienced and has a meritorious case otherwise.

Respectfully submitted,

J. B. TIETZ,
Attorney for Appellant.

October 23, 1961.

No. 17,511 ✓

In the
United States Court of Appeals
for the Ninth Circuit

OWENS GENERATOR COMPANY, INC., a defunct New Jersey corporation; FREDERICK H. WITTMER, individually and as Director and Statutory Liquidating Trustee of OWENS GENERATOR COMPANY, INC., a defunct New Jersey corporation; and FILLMORE S. GIBSON, Executor of the Estate of WILLIAM J. TOBIN, individually and as a Director and Statutory Liquidating Trustee of OWENS GENERATOR COMPANY, INC., a defunct New Jersey corporation,

Plaintiffs-Appellants,

VS.

H. J. HEINZ COMPANY, a Pennsylvania corporation,

Defendant-Appellee.

Appellants' Opening Brief

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CARL HOPPE

JAMES F. MITCHELL, JR.

2610 Russ Building,
San Francisco 4, California,

Attorneys for Plaintiffs-Appellants.

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United States Court of Appeals

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Plaintiffs-Appellants,

vs.

H. J. HEINZ COMPANY, a Pennsylvania corporation,

Defendant-Appellee.

Appellants' Opening Brief

This is an appeal from a summary judgment entered in favor of defendant-appellee, H. J. HEINZ COMPANY, dismissing plaintiffs-appellants' complaint seeking to impress a constructive trust upon converted assets of a defunct New Jersey corporation.

JURISDICTION

Jurisdiction of the District Court is based upon U. S. Code, Title 28, Section 1332(a)(1). This is a civil action between citizens of different states and the matter in controversy exceeds the sum or value of \$3,000 exclusive of interest and costs (Tr. 1-2, 145-146). The complaint was filed on June 18, 1957 prior to the Act of July 25, 1958, 72 Stat. 415, which increased the statutory amount to \$10,000.

Jurisdiction of this Court is based upon U. S. Code, Title 28, Section 1291. This appeal is taken from a final decision of a District Court of the United States entered in favor of one of several defendants (Tr. 316-317). The District Court has expressly determined that there is no just reason for delay in entering the judgment and has expressly directed the Clerk to enter Judgment as required by Rule 54(b) of the Federal Rules of Civil Procedure (Tr. 317).

STATEMENT OF THE CASE

The Persons Involved.

Defendant Charles H. Owens (herein called Owens) is the inventor of two patented vinegar generators. Patent No. 2,089,412 for vinegar generator issued to Owens on August 10, 1937 upon an application filed May 5, 1936 (Tr. 525-532). Patent No. 2,236,153 for vinegar generator issued to Owens on March 25, 1941 on an application filed June 30, 1938 (Tr. 533-537). Owens died on June 28, 1962.

Plaintiff Frederick H. Wittmer (herein called Wittmer) became associated with Owens on March 14, 1936 to engage eventually in the business of the manufacture, sale and distribution of generators of the type invented by Owens (Tr. 111-115).

Plaintiff William J. Tobin (herein called Tobin), Owens, and Wittmer on March 10, 1938 organized plaintiff Owens

Generator Company, Inc. (herein called Generator Company). Tobin died on September 23, 1960 (Tr. 319). His executor Fillmore S. Gibson has been substituted as a party plaintiff (Tr. 323).

Generator Company was organized on March 10, 1938 under the laws of the State of New Jersey (Tr. 517-524). On November 25, 1941 it was enjoined from the exercise of any franchise or the transaction of any business for failure to pay its franchise taxes (Tr. 68-69, 312). On January 19, 1943 its charter was revoked by the Governor of New Jersey (Tr. 312). On that date, Owens, Wittmer and Tobin constituted the board of directors.

Defendant H. J. Heinz Company (herein called Heinz) purchased a giant type Owens Generator from Generator Company on August 28, 1940 (Tr. 309, 416). Heinz later was involved in litigation with both Owens and Generator Company in the Superior Court of the State of California, No. 175,935 (herein called the Alameda action), by virtue of a complaint filed on November 16, 1943 (Tr. 22-32). That litigation terminated in a judgment filed December 21, 1944 (Tr. 33-34). Heinz also was involved in certain contempt proceedings initiated in the Alameda action by Owens which resulted in interlocutory and final orders of the Superior Court and review by the California Supreme Court. Heinz in 1954 purchased the Owens' patents from Owens and together with Owens obtained a vacation of a part of the judgment in the Alameda action.

Defendant Morris Lowenthal (herein called Lowenthal) is a San Francisco attorney. He represented Generator Company in collecting from Heinz the purchase price for said generator. He represented both Generator Company and Owens in the prosecution of the Alameda action. He represented Owens in the prosecution of the contempt pro-

ceedings lodged against Heinz arising out of the Alameda judgment, in the sale of the patents, and in the vacation of part of the judgment in the Alameda action. He is a member of the State Bar of California and of the American Bar Association (Martindale-Hubbell Law Directory, Vol. I, p. 307).

The Questions Involved.

1. Was Heinz without notice of the rights of appellants when it paid Owens and Lowenthal the sum of \$250,000 in May, 1954 for:

(a) contributing to the entry of an order of the court vacating a prior unappealed judgment in favor of Generator Company as a joint plaintiff in an action brought by Owens and Generator Company as plaintiffs against Heinz, and one Glen F. Mason, defendants;

(b) an assignment dated May 15, 1954 and recorded in the U. S. Patent Office on June 24, 1954, assigning Patent No. 2,059,412;

(c) an assignment dated May 15, 1954 and recorded in the U. S. Patent Office on June 24, 1954 assigning Patent No. 2,236,153; and

(d) a certain release and satisfaction executed on or about May 15, 1954 by Owens and his wife to Heinz.

The District Court held that Heinz was a purchaser without notice. Appellants contend that Heinz is not a purchaser for value of such properties without notice; that the properties embraced in items (a), (b), and (c) were trust property of Generator Company, and of its stockholders at the time the transfer was made; and that Heinz became a constructive trustee when it intermeddled with the trust property.

2. Did "the pleadings, depositions, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact" and that Heinz "is entitled to a judgment as a matter of law," as provided in Rule 56(c) of the Federal Rules of Civil Procedure.

The District Court held that Heinz did make such a showing and dismissed the complaint. Appellants here concede that there is no genuine issue as to any material fact, but contend that appellants are entitled to judgment as a matter of law on the undisputed facts.

The Pleadings and Procedure in This Case.

On June 18, 1957, Generator Company and Wittmer and Tobin, individually and as directors and statutory liquidating trustees of Generator Company, as plaintiffs, filed the instant action against Heinz; Owens; Lowenthal; and Juliet Lowenthal as defendants for damages and an accounting for violation of injunction and for breach of trust (Tr. 1-13). After the denial of a motion to dismiss [*Owens Generator Company v. H. J. Heinz Company* (N.D. Cal. S.D. 1958), 23 F.R.D. 121], Heinz on December 22, 1958 filed its answer (Tr. 145-159).

On June 13, 1960, Heinz filed a motion for summary judgment (Tr. 197-198) stating:

"The motion is made on the ground that there is no genuine issue as respects this defendant, as to any material fact, and that defendant H. J. Heinz Company is entitled to judgment as a matter of law."

On April 7, 1961, the District Court granted the motion (Tr. 307-315) and on May 4, 1961, formal judgment was entered (Tr. 316-317) reciting:

"The Court having heretofore, on April 7, 1961, granted the motion by defendant H. J. Heinz Com-

pany for summary judgment, and it appearing that there is no genuine issue as to any material fact as between plaintiffs, or any of them, and defendant H. J. Heinz Company and that said defendant is entitled to judgment as a matter of law,

“IT IS HEREBY ORDERED, ADJUDGED AND DECREED that plaintiffs and each of them have and recover nothing against defendant H. J. Heinz Company, that this suit and the claims for relief of plaintiffs and each of them against defendant H. J. Heinz Company be and they are hereby dismissed, and that the defendant H. J. Heinz Company have and recover its costs from plaintiffs and each of them in the sum of \$62.11.

“The Court hereby expressly determines that there is no just reason for delay in entering the foregoing judgment, and the Clerk is hereby expressly directed to enter the foregoing judgment forthwith.”

Notice of appeal was filed on June 2, 1961 (Tr. 321-322).

Prior Litigation.

On November 16, 1943, Owens and Generator Company as plaintiffs filed an action against Heinz and another as defendants in the Alameda action (Tr. 22-32) in which the plaintiffs there charged defendants with fraud and misrepresentation, sought the destruction and cancellation of an outstanding patent license and sought injunctive relief against the defendants (Tr. 30). On April 24, 1944 defendants filed their answer (Tr. 228-248). On the issues thus framed, the Superior Court on December 18, 1944 filed its findings of fact and conclusions of law in favor of both plaintiffs (Tr. 207-226). On December 21, 1944 judgment was entered accordingly (Tr. 308, 33-34). Defendant Morris Lowenthal represented both Owens and Generator Company in that action. On stipulation of Owens represented

by Lowenthal and Juliet Lowenthal and stipulation of Heinz represented by its attorneys (Tr. 261-263), the Superior Court on May 17, 1954 entered an order dissolving the injunction and modifying the final judgment (Tr. 268-269).

On September 8, 1949 Owens filed an affidavit charging Heinz with violating the injunction (Tr. 35). On July 13, 1951 the Superior Court entered an interlocutory order (Tr. 35-61) finding Heinz guilty of contempt. On March 24, 1952 the court handed down its final order, decree and award (Tr. 62-67). Upon review, the California Supreme Court affirmed such order in part and annulled it in part (*H. J. Heinz Co. v. Superior Court* (1954) 42 C.2d 164, 266 P.2d 5). Heinz then obtained a stay pending filing of petition for certiorari but before filing the petition the Alameda action was settled (Tr. 309) by Owens and Heinz.

In the interim Heinz had filed suit in the District Court for the Northern District of California seeking to restrain Owens from pursuing the contempt proceedings in the state court. A summary judgment in favor of Owens was affirmed on appeal (*H. J. Heinz Co. v. Owens* (9th Cir. 1951, reh. den. 1951) 189 F. 2d 505, cert. den. (1952) 342 U. S. 905).

The Undisputed Facts.

This matter is before this Court on summary judgment. We therefore turn only to the undisputed facts upon which the District Court relied to conclude that Heinz was entitled to judgment as a matter of law and to further undisputed facts upon which appellants contend that on this appeal they are entitled to summary judgment as a matter of law.

On March 10, 1938 Owens, Wittmer and Tobin organized Generator Company (Tr. 308, 517-524). Their general business was to be the business of the construction of genera-

tors of any and every kind (Paragraph 3(a), Tr. 517). Specific objects included the following (Tr. 518):

“(f) To apply for, acquire, buy, sell, assign, lease, pledge, mortgage or otherwise dispose of letters patent of the United States or of any foreign country, and all or any rights, territorial or otherwise, thereunder.

“(g) To apply for, acquire, hold, sell, assign, lease, mortgage, or otherwise dispose of patent rights, licenses, privileges, inventions, trade-marks, trade-names and pending applications therefor, relating to or useful in connection with any business of the corporation.”

Owens and Wittmer each subscribed to 37½ shares and Tobin subscribed to 25 shares (Tr. 520).

Three agreements were made on March 11, 1938. One was between Generator Company and Owens (Tr. 116-119, 355-358). Another was between Owens and Generator Company (Tr. 308, 120-123, 359-362). Still another was between Owens, Wittmer and Tobin (Tr. 124-127, 364-366). These agreements in part referred to Owens' patent 2,089,412 which had been issued earlier on August 10, 1937 for a vinegar generator. This patent is reproduced in full at Tr. 525-532.

The Owens—Generator Company grant which the District Court construed (Tr. 308) provides (Tr. 120-121; 359-360):

“1. [Owens] hereby grants unto [Generator Company] the sole and exclusive right, privilege, and license within the United States to manufacture, sell, install and operate vinegar generators containing the said patented improvement, and any and all improvements thereon for so long as [Generator Company] shall continue in business or to the end of the term for which the said letters patent, or any extensions thereof, were granted, whichever event shall first occur. If,

however [Generator Company] shall terminate its said business at any time hereafter, whether by insolvency proceedings in any state court, Bankruptcy, or for any reason, either voluntary or involuntary, then, and in that event, the license hereby granted shall immediately terminate and become void and for nothing holden."

"4. [Owens] shall forthwith communicate to [Generator Company] any improvement or further invention he may discover or acquire in connection with vinegar generators, and shall disclose to [Generator Company] the manner of making and using the same, and [Generator Company] shall be at liberty to manufacture, sell, install and operate vinegar generators containing any such improvement or further invention within the limits aforesaid during the subsistence of this license free of all further royalties, charges, or payments whatsoever."

"5. [Owens] during the continuance of this license shall not manufacture, sell, install or operate any vinegar generators under the said letters patent, or under any improvement or future invention hereinbefore referred to within the United States, and shall not grant any license to manufacture, sell, install or operate any vinegar generators under the said letters patent or under any such improvement or further invention to any other person, firm or corporation within the limits aforesaid."

"6. [Generator Company] may, with the consent in writing of [Owens], grant sublicenses hereunder to manufacture, sell, install and operate the said vinegar generators within the United States, but every such sublicense shall provide that it shall cease and determine in the event of this license being determined for any cause, and provided, further, that nothing herein contained shall authorize [Generator Company] to assign or mortgage this license without the written consent of [Owens]." (Tr. 121-122, 360-361).

A contemporaneous agreement provided (Tr. 75-78, 116-119, 355-358) :

“(2). [Owens] shall, and he hereby agrees that he will devote his time exclusively to the business of [Generator Company], in the management and operation thereof, at a salary to commence at the sum of \$50.00 per week, * * *. [Owens] shall not, so long as the party of the first part continues in business and he continues in its employ, engage in any other employment or occupation. Until [Generator Company] becomes firmly established, [Owens] shall not, and he hereby agrees that he will not, terminate his said employment if, because of lack of sufficient funds, he does not receive his said salary, partly or in toto, each and every week as stipulated. * * *

“(3). To induce [Owens] to license it to manufacture, sell, install and operate vinegar generators of the type covered by the patent of [Owens], and any and all improvements thereon, and in consideration therefor, [Generator Company] shall, and it hereby agrees that it will, issue, fully paid and non-assessable, to [Owens], or his nominees, thirty-seven and one-half shares of the common capital stock, without nominal or par value, of [Generator Company].

“(4). [Generator Company] shall, and it hereby agrees that it will, engage the services of [Owens] to manage and operate its business at a salary to commence at \$50. per week and to be increased as hereinbefore more particularly set forth.” (Tr. 77, 118, 357).

In the third agreement Owens, Wittmer and Tobin agreed (Tr. 124-125; 363-364) that no stock in addition to the original one hundred shares would be issued by the corporation at any time during the existence of the agreement without unanimous consent; that each would vote for each of the other parties as a Director of the corporation and would not vote for any other person as a Director; and that each

would vote for Owens as President, Wittmer as Vice-President, and Tobin as Secretary and Treasurer.

On June 30, 1938 Owens filed his patent application Serial No. 216,823 seeking a patent for a vinegar generator based in part upon the "construction disclosed in detail in my patent No. 2,098,412 dated August 20, 1937 * * *". (Tr. 536). This application was filed by Clarence A. O'Brien and Hyman Berman (Tr. 535). The correspondence relating to the prosecution of application Serial No. 216,823 was carried on directly with Generator Company (Tr. 560-561). Tobin's testimony that these funds were used for filing the application (Tr. 453-454) is without dispute. The check files of the Company disclose:

Number	Date	Order Of	For	Amount
46	May 25, 1938	Clarence O'Brien	—	\$ 17.00
52	June 11, 1938	Clarence A. O'Brien	Patent for Process	50.00
55	June 25, 1938	Clarence A. O'Brien	Process Patent Fees	135.00
56	June 29, 1938	C. H. Owens	Expenses to Wash. & Etc.	53.18
TOTAL.....				<u>\$255.18</u>

In the income tax return for 1938 Generator Company listed among its assets "patents" in the amount of \$195,252.00.

As its first item of business Generator Company took over the rights and obligations of Owens and Wittmer trading as Owens-Wittmer Company under certain agreements with Frank Tea & Spice Company of Cincinnati, Ohio (Tr. 128-130 and 131-134). Generator Company built a vinegar generator under the Owens' patent for the Frank Company as brought out in several of the findings of fact entered in the Alameda suit (Tr. 210, 39, 41, 42, 44, 45 and 59). The income tax return for Generator Company for 1938 shows that Generator Company received \$6,685.00 for

this generator and that the cost of goods was \$4,921.07, leaving Generator Company with an income of \$1,763.93 on this item (Tr. 253).

As a consequence of the installation of the Owens Generator at the Frank Company, the Frank Company was sued for infringement of the Frings patent 1,880,381 owned by Standard Brands, Inc. This litigation was dismissed pursuant to stipulation on August 15, 1939 (Tr. 539-540). The stipulation of dismissal recites that counsel for plaintiff "inspected the vinegar generator installed at the plant of defendant The Frank Tea & Spice Co., Cincinnati, Ohio, by Charles H. Owens and Owens Generator Company, Inc., of Newark, New Jersey" and that "based on said inspection and observation of operation" there appeared "to be no infringement of the Frings patent in suit 1,880,381." The dismissal was "with prejudice only as to the observed construction and operation". The attorneys for defendant were Edmond T. Wood and Munn, Anderson & Liddy (Tr. 540). Tobin's testimony that Generator Company paid for the defense of that suit (Tr. 451) is not disputed.

The check files of Generator Company disclose:

Number	Date	Order Of	For	Amount
124	Dec. 10, 1938	Munn, Anderson & Liddy	Retaining Fee of Legal Services	\$150.00
126	Dec. 27, 1938	Munn, Anderson & Liddy	Retaining Fee for legal services	\$150.00
129	Jan. 3, 1939	Wood & Wood	Legal Fees at Cincinnati	\$150.00
149	Mar. 8, 1939	Munn, Anderson & Liddy	Legal Fees	222.00
TOTAL.....				\$672.00

On August 28, 1940 Generator Company entered into an agreement with Heinz to construct a Giant Type Owens

Generator in Berkeley for \$7,100.00 (Tr. 309, 416). This agreement incorporated the Frank experience as follows:

“By accepting this order, you agree to indemnify us against any claims and demands for infringement of patents covering the whole or any portion of the goods hereinabove enumerated, and/or the method that is accomplished in the operation of the apparatus, and in the event suit shall be instituted for alleged infringements of any patent or patents applicable to said apparatus and/or method, you agree, upon request from us, and upon notice of the institution of any infringement suit, to assume the defense of such suit at your own cost and expense in every respect, and to pay any and all damages and/or costs assessed against us, and to hold us entirely harmless in respect thereof.

Generator and apparatus to be furnished under this agreement shall be identical with and similar to, in every respect, the Owens installation at the plant of the Frank Tea & Spice Company, Cincinnati, Ohio, and susceptible of operation in the same manner as the Frank installation is operated.”

In order to make it possible for Generator Company to construct the generator, Generator Company borrowed \$5,000 from Edgewater National Bank of Edgewater, New Jersey, and assigned to it the Heinz contract (Tr. 368-369, 562-563 and 543-544). Owens, Wittmer, Tobin and Elizabeth C. Revere, an aunt of Tobin, endorsed and guaranteed the \$5,000 note (Tr. 369, 563).

The negotiations leading up to the execution of such contract show without material dispute that Heinz had actual notice of Generator Company's interest in the designs and close relationship between Generator Company and Owens as President of the Company. The negotiations were initiated in November, 1938 (Tr. 309) by an exchange

of correspondence between Heinz and Generator Company, "Attention: Mr. C. H. Owens, President." (Tr. 410).

It appears without dispute (Tr. 414):

"* * * the H. J. Heinz Company in August of 1939, sent its Mr. Montgomery and its patent attorney, Mr. Bayard H. Christy of the firm of Christy & Wharton, Farmers Bank Building, Pittsburgh, Pennsylvania, to the plant of the Frank Tea & Spice Company to inspect the Owens generator which was there installed and in operation. Mr. Owens and I [Robert O. Bentley] met Mr. Christy and Mr. Montgomery in Cincinnati at that time and cooperated with them fully in their inspection."

By October 21, 1939 negotiations had progressed to the extent that Robert O. Bentley, the attorney for the Company sent Bayard H. Christy, Esq. attorney for Heinz "a blueprint of the installation in the plant of the Frank Tea & Spice Co. in Cincinnati, of a generator of the above company" with the remark that "this blueprint will not be used for any purpose other than that for which it is sent by my client." (Tr. 411). This blueprint had the following notations upon it (Tr. 538).

"Generator Assembly. This print is the property of the Owens Generator Co., Inc. Drawn by C. H. O. Date 5-2-39."

"This drawing is the property of Owens Generator Company, Inc. It shall not be copied or duplicated in any manner and shall not be submitted to outside plants for examination without our consent. It shall be used for reference to work under contract or proposal submitted by this corporation only. Owens Generator Company, Inc., 888 River Road, Edgewater, New Jersey."

The interlocutory order filed July 13, 1951 recites (Tr. 40):

“* * * on October 24, 1939, said defendant had received from plaintiffs full blueprints of the construction under the Owens patent of the Owens Giant Type Generator, in response to a request made by defendant to plaintiff Charles H. Owens for a full description of said generator. * * *”.

It has been adjudicated (Tr. 210) that “subsequent to the execution of said contract plaintiff Owens Generator Company, Inc., constructed a generator of the character, specifications and type described in the aforesaid contract of sale and during or about the months of February and March, 1941, installed said generator in said defendant’s manufacturing plant at Berkeley, California.”

On November 25th, 1941 Heinz prepared a form of license signed by Owens reciting as follows: (Tr. 212)

“WHEREAS, for and in consideration of the sum of Seven Thousand, One Hundred Dollars (\$7100), I, Charles H. Owens, of North Arlington, New Jersey, built for the H. J. Heinz Company, a corporation of the Commonwealth of Pennsylvania, and installed at its plant at Berkeley, California, a vinegar generator,—and whereas it is the desire of said H. J. Heinz Company to acquire the right to build and operate such vinegar generators as it will;

NOW THEREFORE, in consideration of the premises, and in consideration of the sum of One (\$1.00) to me in hand paid, I, the said Charles H. Owens, hereby grant to the said H. J. Heinz Company, its successors and assigns, and its subsidiaries, both in this and in other countries, license under Letters Patent of the United States, No. 2,089,412, granted August 10, 1937 (of which I am sole owner), and under such other letters patent of the United States and of other countries as I may own or may hereafter own, or acquire adequate right under, to maintain and operate the generator at Berkeley alluded to above; and to build

or to have built for itself and to operate vinegar generators at will, and situated where it will, without other or additional consideration."

On December 4, 1941 the Edgewater National Bank wrote to Heinz, attention Mr. E. P. Goetz, stating as follows (Tr. 548-549):

"* * * It is our understanding that three or four people have offered to take over his patents and production, but the stockholders in his company, as it is presently organized, have fantastic ideas that someone should give them a lot of money and let them continue their incompetent management of the affairs of the company. * * *"

"* * * The affairs of the company here are directed as far as possible, considering the differences between some of the owners, by Mr. R. O. Bentley, Jr., who is a thoroughly reliable and competent attorney who genuinely desires to assist Owens and his associates. Mr. Bentley has, I believe, no stock interest in the Company."

On March 16, 1942 Generator Company by Wittmer, Vice President, sent a letter to Heinz regarding settlement of the purchase price and informing Heinz as follows:

"In order that you may understand my position let me inform you that I own 37½% of the Owens Generator Company. Mr. Owens owns a like amount and Mr. Tobin 25%. We three constitute the Board of Directors and I can assure you that neither Mr. Owens or I has agreed to any settlement as suggested above * * *."

"* * * Permit me to tell you that Mr. Owens is the official representative of this company and that I stand squarely behind him and will endorse whatever steps he deems necessary, confident that his experience and knowledge of generators will lead him to make the proper decisions, therefore, you may disregard any

information from either Mr. Bentley or the Edgewater National Bank as to who represents our company.
* * *” (Tr. 371-372, 389-390).

On December 7, 1942 Owens prepared a letter addressed to Generator Company in which he stated (Tr. 70, 373, 564) :

“In view of the fact that for some time past this Company has not been engaged in any business and cannot engage in any business at the present time, it is obvious that in accordance with the express provisions of Paragraph 1 of the said agreement of March 11, 1938 the license granted by the undersigned has been terminated and has become void and it is the purpose of this letter to confirm the aforesaid termination of said license.”

There is a dispute as to whether Wittmer or Tobin received this letter. However, it was received by Theresa V. McCurry as indicated by a letter from her attorney, Milton T. Lasher (Tr. 136). The charter of Generator Company was revoked on January 19, 1943 (Tr. 312). Lasher on April 15, 1943 made clear that he did not consider the termination proper (Tr. 394-395). Lowenthal responded to the effect that he thought that the termination was proper (Tr. 396-397). Owens, Lowenthal and Generator Company amicably resolved this dispute in favor of non-termination on November 16, 1943 by jointly instituting the Alameda proceedings.

On November 16, 1943, Owens and Generator Company, as joint plaintiffs, filed the Alameda action against Heinz in the Superior Court. Plaintiffs asked for an adjudication perpetually enjoining Heinz from asserting any rights or claims based upon the license dated November 25, 1941 executed by Owens to Heinz and “from asserting or claiming the right or license to build or have built for itself or to

maintain or operate vinegar generators of the type, kind or character covered by the Letters Patent of the United States owned by plaintiff Charles H. Owens, other than the one vinegar generator installed by plaintiffs at Berkeley, California." (Tr. 22-32).

In its answer, Heinz denied "that any justiciable or actual controversy exists between plaintiff company and either defendants" (Tr. 238); alleged that "said complaint does not state a cause of action in favor of plaintiff company" (Tr. 242); and alleged that "plaintiff company has not legal capacity to sue." (Tr. 242).

After a five-day trial (Tr. 207), the Superior Court entered findings of fact and conclusions of law particularly determining:

"A justiciable and actual controversy exists between plaintiffs and defendants relating to the legal rights, obligations and duties of the plaintiffs and defendant corporation concerning said defendants' right to build and operate vinegar generators of the type covered by said plaintiff's patent and particularly concerning the existence, contents, validity and enforceability of the written instrument hereinabove set out in paragraph VI of these findings and a copy of which is attached to the complaint and marked Exhibit "B", in the respects hereinafter alleged in paragraph IX of these findings." (Finding VIII, Tr. 216).

"With respect to paragraph III of the affirmative defense and answer to the complaint, found on page 15 of said answer, this Court finds that plaintiff Owens Generator Company, Inc. has had and does now have legal capacity to sue and to file this action." (Finding XI, Paragraph E, Tr. 222).

"Plaintiff Owens Generator Company, Inc. has legal capacity to sue." (Conclusion of Law I, Tr. 223).

The court specifically found (Tr. 225) "Plaintiffs Charles H. Owens and Owens Generator Company, Inc. are entitled to a decree of this court perpetually enjoining defendant H. J. Heinz Company and its officers, agents, and representatives" in the specific respects prayed in the complaint. A decree accordingly was entered in which (Tr. 34):

"It Is Further Ordered, Adjudged and Decreed that defendant H. J. Heinz Company and its officers, agents and representatives be and they hereby are perpetually restrained and enjoined and forever debarred from asserting any rights or claims based or founded upon or arising out of said original document of November 25, 1941 or any copy thereof, and from asserting or claiming the right or license to build or have built for itself or to maintain or operate vinegar generators of the type, kind or character covered by any Letters Patent of the United States owned by plaintiff Charles H. Owens, other than the one vinegar generator installed by plaintiffs at the H. J. Heinz Company factory in Berkeley, California."

The relative rights of Owens and Generator Company are determined in the following findings:

"At all times referred to in the complaint filed by plaintiffs, plaintiff Owens Generator Company, Inc., was and now is a corporation, incorporated under and by virtue of the laws of the State of New Jersey, with its principal place of business in the City of Hackensack, New Jersey, for the purpose of engaging in the business of the manufacture, sale and installation of vinegar generators. At all times mentioned in said complaint plaintiff Charles H. Owens was and now is the President of plaintiff Owens Generator Company, Inc., a corporation." (Finding III, Tr. 208).

"At all times mentioned in the complaint filed by plaintiffs, plaintiff Charles H. Owens was and now is the owner and holder of a certain patent covering the

construction and operation of vinegar generators of a type conceived, invented, perfected and patented by him, which said patent is more particularly described as Letters Patent of the United States No. 2,089,412, granted August 10, 1937." (Finding IV, Tr. 208-209).

"During all of the year 1940 and the year 1941 plaintiff Owens Generator Company, Inc., by a written agreement between plaintiff Charles H. Owens and plaintiff Owens Generator Company, Inc., was the holder of the exclusive license to manufacture, sell, install and operate vinegar generators of the type covered by the said patent owned by plaintiff Charles H. Owens and more particularly described hereinabove in paragraph IV of these findings, and all improvements thereon. * * *" (Finding V, Tr. 209).

The Superior Court found that the November 25, 1941 license was obtained by fraud in the following findings:

"The aforesaid document was obtained by fraud and misrepresentation on the part of the defendants as to the contents, nature, scope and legal effect of the said document. * * *" (Finding VI, Tr. 212-213).

"* * * said claims of plaintiffs that defendant had obtained said document of November 25, 1941, through fraud and misrepresentation were justified and had ample foundation both in law and in fact." (Finding XI, Paragraph F, Tr. 223).

Generator Company is directly involved in the following findings:

"Plaintiff Owens Generator Company, Inc. had no knowledge of the signing of the aforesaid document by plaintiff Charles H. Owens at any time until approximately six months before the filing of the complaint in this action and at no time did plaintiff Owens Generator Company, Inc. authorize plaintiff Charles H. Owens as its president or otherwise to sign or

execute said document or to enter into any agreement with defendant corporation or its officers, employees or agents concerning or relating to the construction, maintenance, and operation of vinegar generators other than the one generator covered by purchase agreement of August 28, 1940." (Finding VI, Tr. 214).

"Prior to said 5th day of April, 1943, plaintiffs were not aware and had no knowledge that defendant corporation claimed the right to build or to have built for itself or to operate vinegar generators of the type covered by plaintiff's said patent at will and situated wherever it desired without the consent of plaintiffs and without the payment of any consideration or compensation to plaintiffs * * *." (Finding VII, Tr. 215-216).

The Court found that both Owens and Generator Company were collectively entitled to relief as follows:

"Plaintiffs Charles H. Owens, and Owens Generator Company, Inc., a corporation, are entitled to a decree of this court ordering defendants to deliver up to this court the original of said document of November 25, 1941, and ordering the said original destroyed and cancelled." (Conclusion of Law VI, Tr. 225).

"Plaintiffs Charles H. Owens and Owens Generator Company, Inc. are entitled to a decree of this court perpetually enjoining defendant H. J. Heinz Company and its officers, agents and representatives from asserting any rights or claims based upon said original document of November 25, 1941, or any copy thereof, and from asserting or claiming the right or license to build or have built for itself or to maintain or operate vinegar generators of the type, kind or character covered by any Letters Patent of the United States owned by plaintiff Charles H. Owens, other than the one vinegar generator installed by plaintiffs at the H. J. Heinz Company factory in Berkeley, California." (Conclusion of Law VII, Tr. 225-226).

On March 27, 1945 Charles H. Owens resigned from the office of president of Generator Company by letter addressed to the Company (Tr. 73-74, 137-138, 569-571). Inspection of this letter discloses that he did not relinquish his stock in Generator Company, nor did he resign as a director of the Company.

After the issuance of the injunctive order, Heinz proceeded to violate its terms.

On September 8, 1949 Owens filed an affidavit charging such violation (Tr. 35). On July 13, 1951, the Superior Court entered an interlocutory order which purported to dispose of the rights of Generator Company, as follows (Paragraph II, Tr. 38):

"II. At all times mentioned hereinbelow in these findings plaintiff Charles H. Owens was and now is the sole owner and holder of two patents covering the construction and operation of vinegar generators of a type conceived, invented, perfected and patented by him, which said patents are more particularly described as Letters Patent of the United States No. 2,089,412, granted August 10, 1937, and No. 2,236,153, granted March 25, 1941, by way of an improvement on the original patent.

"During the years 1940 to 1944, inclusive, plaintiff Owens Generator Company, Inc., had an exclusive written license from plaintiff Charles H. Owens to manufacture, sell, install, and operate vinegar generators of the type covered by the aforesaid patents. However, said exclusive written license was fully terminated and cancelled during the year 1945, and ever since said termination and cancellation plaintiff Charles H. Owens has been and now is the sole owner and holder of said letters patent, and at no time since that cancellation has any person, firm or corporation held or owned, or does now hold or own, any right or license of any kind or character to manufacture, sell,

maintain or operate vinegar generators of the type covered by said letters patent owned by plaintiff Charles H. Owens."

So far as the violation of the injunctive order itself was concerned the interlocutory decree provided (Tr. 47):

"The violation by defendant H. J. Heinz Company of this court's decree and injunction of 1944 and the infringement by defendant of plaintiff's patent, as found hereinabove, was deliberate and wilful and in bad faith.

"The evidence before the Court demonstrates, and this Court finds, an established chain of causation commencing with the original attempt of the H. J. Heinz Company to appropriate Owens' patents and continuing without interruption to the final erection and operation by defendant of vinegar generators which are substantially identical with those erected by Owens under his patent. This proceeding is one to enforce the injunction and decree issued in the original trial of this action and cannot be divorced from the facts that were developed by the evidence produced at the original trial with respect to the effort of defendant H. J. Heinz Company to acquire the benefits of plaintiff's patents through actual and gross fraud, trickery and deceit.

"Independently, however, of the evidence developed at the original trial, this Court finds on the basis of the evidence developed in the contempt proceeding that there was bad faith and a continuing and persistent and wilful design and intent on the part of defendant H. J. Heinz Co. to appropriate the essence of plaintiff's invention in direct and flagrant violation of the 1944 devise and injunction. It appears to this Court that even before the Court's signature was affixed to the decree and injunction rendered in 1944, the defendant was seeking and devising ways and means of getting around or flaunting the injunction

and decree and thereupon proceeded to imitate and duplicate, with unsubstantial variations, the essence and substance of plaintiff's patent."

On March 24, 1952, a final decree and award was entered awarding Owens compensatory damages of \$375,934.66 plus damages of \$526 per day and ordering the demolition of 16 vinegar generators (Tr. 62-67).

On review, in *H. J. Heinz Co. v. Superior Court* (1954) 42 C.2d 164, 266 P.2d 5, the Supreme Court affirmed that portion of the order directing destruction of the 16 generators finding that they had a value of over \$160,000. However, the Court annulled the allowance of compensatory damages. At page 173 the court said:

"On the question of the propriety of awarding compensatory damages, that is, damages suffered by plaintiff by reason of defendant's violation of the injunction, petitioner contends that the court had no authority in a contempt action to award such damages. This contention must be sustained."

At page 175 the court stated:

"* * * In 39 California Law Review, at page 560, the author states that 'California has no provision for compensatory contempt proceedings. Civil damages may be collected in an ordinary civil action for an act otherwise a contempt.'"

On May 15, 1954 Owens and Heinz settled the entire controversy. *First*, Owens transferred and assigned to Heinz the entire right, title and interest in and to United States Letters Patent No. 2,089,412 for a stated consideration of \$40,000 and for other good and valuable consideration (Tr. 426-428).

Second, Owens transferred and assigned to H. J. Heinz Company "the entire right, title and interest in and to"

Letters Patent 2,236,153 for a stated consideration of \$200,000 "and for other good and valuable consideration" (Tr. 423-425).

Third, Owens, for a stated consideration of \$10,000 released and forever discharged Heinz "from any and all claims and demands of whatsoever kind or nature, from the beginning of the world until the present time." (Tr. 419). The release particularly released Heinz and its said officers, directors, employees and stockholders (Tr. 420) from

"any and all claims for damages arising from, or connected with any actual or claimed infringement of said or any other Letters Patent and all claims for damages arising from or connected with any actual or claimed violation or disobedience of or non-compliance with, that certain Judgment and Decree for Declaratory and Other Relief rendered by the Superior Court of the State of California in and for the County of Alameda on or about December 21, 1944 in the action entitled 'Charles H. Owens and Owens Generator Company, Inc., a corporation, plaintiffs vs. H. J. Heinz Company, a corporation, and Glen F. Mason, Defendants', No. 175935, which was entered in Volume 312 of Judgments at page 412 and all claims for damages arising from or connected with any actual or alleged violation or disobedience of, or non-compliance with, that certain 'Final Order, Decree and Award' made and entered by the above-entitled court on or about March 24, 1952 in a certain contempt proceeding under the caption of said action No. 175935 and entered in Judgment Book No. 337 at page 369."

Fourth, on May 17, 1954 Owens and Heinz made a joint motion to dissolve the injunction and modify judgment (Tr. 261-262). This motion recited as follows:

"This motion is made on the ground that plaintiff CHARLES H. OWENS and defendant H. J. HEINZ COMPANY have entered into an agreement whereby plaintiff

has sold to defendant all his patents which were the subject matter of the said judgment and has transferred to the said defendant the rights which said injunctive provisions were designed to protect, that the license from plaintiff CHARLES H. OWENS to Owens Generator Company, Inc. was terminated in 1945 and said Owens Generator Company, Inc. has not had any interest in any of said patents since then, as found by this Court in that certain 'Interlocutory Order' of July 13, 1951, and said Owens Generator Company, Inc. is no longer in existence, that the said injunctive provisions have become moot and functus officio, and that it is in the inherent power of a court of equity to modify or vacate its decree when the ends of justice will thereby be served, and that the ends of justice will be served by the granting of this motion."

In support of the motion Owens and Heinz entered into a stipulation (Tr. 263):

"IT IS HEREBY STIPULATED, by and between the parties hereto, that the facts stated in the foregoing motion are true and that said motion should be granted."

Thereupon on May 17, 1954 the Court entered an order pertinent which provides (Tr. 268-269):

"It appearing that this Court heretofore on December 21, 1944 made and rendered herein its 'Final Judgment and Decree For Declaratory and Other Relief', which was entered in Judgment Book 312, page 412, and that said judgment contained certain injunctive provisions as follows:

'It is Further Ordered, Adjudged and Decreed that defendant H. J. Heinz Company and its officers, agents and representatives be and they hereby are perpetually restrained and enjoined and forever debarred from asserting any rights or claims based or founded upon or arising out of said original document of November 25, 1941 or any copy thereof, and from asserting or claiming the right or license to

build or have built for itself or to maintain or operate vinegar generators of the type, kind or character covered by any Letters Patent of the United States owned by Plaintiff Charles H. Owens, other than the one vinegar generator installed by plaintiffs in the H. J. Heinz Company factory in Berkeley, California.'

And it further appearing to the Court that good cause exists for dissolving said injunction and for vacating and annulling said injunctive provisions, and that plaintiffs have stipulated thereto,

NOW, THEREFORE, upon the joint Motion of plaintiff CHARLES H. OWENS and defendant H. J. HEINZ COMPANY to Dissolve Injunction and Modify Judgment filed herein on May 17th, 1954, and the stipulation of plaintiffs, the said motion is granted, and the above quoted injunctive provisions of said Judgment are hereby forever vacated, annulled and set aside, *nunc pro tunc* as of December 21, 1944 with the same force and effect as if the same had never been contained in said judgment and decree."

On the same day the court entered into another order, pertinent portions of which recite (Tr. 264-267):

"1. The Court hereby adjudges and decrees that defendant H. J. Heinz Company has fully and completely purged itself of any and all contempts whatever resulting from any violations or disobedience of, or non-compliance with, the said judgment and decree of December 21, 1944 or the injunctive provisions thereof or said Final Order, Decree and Award of March 24, 1952, or any of the provisions thereof.

2. The Court further adjudges and decrees that the defendant H. J. Heinz Company is entitled to an order, and IT IS HEREBY ORDERED, that no penalty, punishment or sanction of any kind whatsoever should be imposed on said defendant H. J. HEINZ COMPANY by reason of any contempt or alleged contempt heretofore at any time committed.

3. The Court hereby orders remission of the said contempt judgment and sentence, to wit, the said Final Order, Decree and Award of March 24, 1952, and of all interlocutory orders preceding it, and the same are hereby forever remitted.

4. The Court hereby orders that said Interlocutory Order and the said Final Order, Decree and Award of March 24, 1952 be and the same are, and each is, hereby forever annulled, vacated and set aside with the same force and effect as if the same had never been made, and the order to show cause heretofore issued by this Court to the defendant H. J. HEINZ COMPANY on September 23, 1949 is hereby discharged."

On June 21st, 1954 Owens sent Mrs. Tobin a picture of Owens, Mrs. Owens and Lowenthal viewing a check. An accompanying note recites (Tr. 574):

"This was taken in the courtroom, the day of the settlement. This is Lowenthal, our main lawyer who fought and won the three suits for us."

On June 24, 1954 both assignments were recorded in the U. S. Patent Office (Tr. 203, 206).

The present complaint was filed on June 18, 1957 (Tr. 1).

SPECIFICATION OF ERRORS

1. The District Court erred in adjudicating that plaintiffs and each of them shall have and recover nothing against Heinz and in dismissing this suit and the claims for relief of plaintiffs and each of them against Heinz (Tr. 316; Argued at pp. 33-60).

2. The District Court erred in concluding that the grant from Owens to Generator Company terminated on January 19, 1943 when its charter was revoked (Tr. 312; Argued at pp. 40-46).

3. The District Court erred in concluding that the 1944 Alameda judgment settled the matter of ownership of the

patents adversely to Generator Company (Tr. 313-314; Argued at pp. 34-39).

4. The District Court erred in finding that Heinz acted in good faith without notice of a breach of duty by Owens to the company (Tr. 312-315; Argued at pp. 46-60).

5. The District Court erred in failing to conclude that Heinz is a constructive trustee for appellants as a consequence of its intermeddling with the assets of Generator Company (Tr. 313; Argued at pp. 30-33).

ARGUMENT

Summary of Argument.

In the argument which follows, appellants urge that Generator Company was the equitable title holder of the Owens' patents found to be owned by Owens; that the Alameda judgment inured to the common benefit of Owens and Generator Company with respect to this ownership; that Heinz intermeddled with the patents and judgment with notice and that it therefore became a constructive trustee.

Appellants further urge that the District Court improperly granted summary judgment to Heinz. Appellants submit that the Alameda judgment conclusively determined the equities of the parties, that the forfeiture clause upon which the District Court relied was inoperative and that Heinz had both actual and implied notice of the rights of Generator Company when it intermeddled with the corporate assets.

Finally, appellants argue that, since the issues on this appeal are pure matters of law and since there is no dispute as to any issue of fact, the judgment of the District Court should be reversed with instructions to enter a judgment against Heinz in favor of appellants and to take such evidence as is necessary to determine the amount of relief which should be granted.

Under Appellants' Theory of the Case, Heinz Is a Constructive Trustee.

Appellants contend that the record discloses without material issue of fact that Heinz is a constructive trustee responsible to the creditors and stockholders of Generator Company for all losses which its conduct may have occasioned Generator Company and for all profits which it made by virtue of its intermeddling with the properties of Generator Company.

It is undisputed that Owens granted to Generator Company "the sole and exclusive right, privilege, and license within the United States to manufacture, sell, install and operate vinegar generators containing the said patented improvement, and any and all improvements thereon" subject to the stated conditions subsequent (Tr. 120-121; 359-360). Appellants contend that, as a matter of law, such a grant is an assignment (*All Steel Engines v. Taylor Engines* (N.D. Cal. 1950) 88 F. Supp. 745, 746-747, affirmed *Taylor Engines v. All Steel Engines* (9th Cir. 1951) 192 F.2d 171; *Watson v. United States* (10th Cir. 1955) 222 F.2d 689, 691; *Hook v. Hook & Ackerman* (3rd Cir. 1951) 187 F.2d 52, 56-58; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349, 356; *Heywood-Wakefield Co. v. Small* (1st Cir. 1938) 96 F.2d 496, 498-499; *Paulus et al. v. M. M. Buck Mfg. Co. et al.* (8th Cir. 1904) 129 Fed. 594, 596; and *Johnson Railroad Signal Co. v. Union Switch and Signal Co.* (C.C. Pa. 1893) 59 Fed. 20, 22-23).

Further, appellants contend that the record discloses without material issue of fact that there was a fiduciary relationship between Owens and Generator Company which began with the incorporation of the company and continued through the acquisition of the company's properties

by Heinz. At all times prior to the revocation of the charter of Generator Company on January 19, 1943, Owens was the President, a director and a 37½% stockholder of Generator Company bound by contract to devote his time exclusively to the management and operation of the business of Generator Company. Generator Company prior to becoming firmly established depleted its capital and dissipated what small income it had received by paying Owens over \$5,000 in salaries and expenses. The Company paid the expenses for filing the second application. Generator Company carried "patents" on its books for a stated capitalization of \$195,252.00. Generator Company reduced the generator designs to actual practice by installing a generator at the plant of the Frank Tea & Spice Company. Generator Company defended the patented structure against charges of patent infringement. Generator Company made changes in the first generator and installed these changes upon the generator it erected for Heinz. The stockholders of Generator Company lent their own personal credit to the construction of the Heinz generator and at least one of the other initial stockholders had judgment in the amount of \$7,000 rendered against him by virtue of his cooperation. The patents and the design of the Frank and Heinz generators was the only life blood which the corporation ever had. Appellants contend that on this undisputed record Generator Company, as a matter of law, was the equitable owner of the two Owens' patents (*Daniel Orifice Fitting Company v. Whalen* (1962) 198 A.C.A. 870; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349; *Dowse v. Federal Rubber Co.* (N.D. Ill. E.D. 1918) 254 Fed. 308; and *Ambler v. Whipple* (1874), 20 Wall. (87 U.S.) 546). Appellants further contend that although Owens was the record owner of the patents, his ownership,

as a matter of law, was that of a trustee holding legal title for his corporation (*Ind. Wireless Co. v. Radio Corp.* (1926) 269 U.S. 459, 469; *New Marshall Co. v. Marshall Engine Co.* (1912) 223 U.S. 473, 479; *Jonathan Mills Mfg. Co. v. Whitehurst* (6th Cir. 1896) 72 Fed. 496, 502; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349; *Dowse v. Federal Rubber Co.* (N.D. Ill. E.D. 1918) 254 Fed. 308; *Prime v. Brandon Manuf'g Co.* (D. Vt. 1879) 19 Fed. Case, Page 1324 at page 1328, Case No. 11421).

Appellants further contend that when the charter of Generator Company was revoked on January 19, 1943, it is indisputable, as a matter of law, that Owens, as a director, became one of three express statutory trustees designated by the New Jersey law to take possession of the property of Generator Company and to dispose of it in trust for the use and benefit of creditors and his brother stockholders with the right to use the name of the corporation in litigation seeking to enforce the rights which were appertinent to the patents and designs (New Jersey Statutes Annotated, Title 14, Chapter 13, Sections 14:13-4 and 14:13-5; *Matawan Bank v. Matawan Tile Co.* (1949) 2 N.J. 116, 65 A.2d 729, 734; and *State v. Fidelity Union Trust Co.* (1957) 25 N.J. 387, 136 A.2d 636, 640-641).

Appellants further contend that when Owens and Generator Company successfully prosecuted to judgment, on December 21, 1944 (Tr. 34), their joint complaint of November 16, 1943 (Tr. 30) that such judgment became itself a property right (28 Cal. Jur. 2d 612, Judgments Sec. 2). It of necessity reflected the trust for Generator Company.

When Heinz obtained a record title to the two Owens' patents, when it obtained a vacation of the judgment and when it obtained a full and complete release from Owens of all claims for damages arising by virtue of conduct pro-

hibited by such judgment, appellants contend that Heinz itself, as a matter of law, became a constructive trustee for the benefit of the creditors and stockholders of Generator Company with the full duty to account (California Civil Code, §§ 2223, 2224, 2243 and 2244; 54 Am. Jur. 241, Trusts § 305, Liabilities of Third Persons Participating in Trustee's Breach of Duty; *Kittle Mfg. Co. v. Davis* (1935), 8 Cal. App. 2d 504; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349; *L. A. Young Spring & Wire Corporation v. Falls* (1943) 307 Mich. 69, 11 N.W. 2d 329; and *Ambler v. Whipple* (1874), 20 Wall. (87 U.S.) 546, 559).

The District Court dismissed appellants' complaint as against Heinz on Heinz' motion for summary judgment for the reasons discussed and answered in the next section of this brief.

The District Court Improperly Granted Summary Judgment to Heinz.

The District Court granted summary judgment to Heinz on several grounds.

The first ground is based upon the condition of the written grant "for so long as said [Generator Company] shall continue in business, * * *" (Tr. 308). Relying upon the injunctive order of November 25, 1941 and the revocation of the charter of the company on January 19, 1943 (Tr. 312), the District Court as a matter of law concluded that the agreement thus ceased automatically by operation of law citing *Haffcke v. Clark* (4th Cir. 1892) 50 Fed. 531, 536; *Kenyon v. Automatic Instrument Co.* (W.D. Mich. S.D. 1945) 63 F. Supp. 591; and *Pierpoint Boiler Co. v. Penn. Iron & Coal Co.* (N.D. Ohio E.D. 1896) 75 Fed. 289 (Tr. 311-312). The District Court then held that any dealings of Heinz "with Owens in relation to the first patent would, and properly could, be carried out in good faith

and belief that Owens was the sole owner thereof" (Tr. 312) and that the second patent "came to an end for the very same reasons as patent No. 1." (Tr. 313).

The second ground is based upon the fact that the patents stood of record in the name of Owens alone (Tr. 313).

The third ground is that the matter of ownership of the patents was settled by the 1944 Alameda suit and is res judicata (Tr. 313).

Appellants accept without question the res judicata rule but contend that the Alameda proceedings are res judicata in confirmation of the very rights which appellants are prosecuting on the instant appeal. Since this contention, if correct, should control all of the issues raised on appeal, we discuss it first.

Generator Company's Equity Was Adjudicated Favorably in the Alameda Proceedings.

Appellants adopt that portion of the District Court's opinion which concludes that the matter of ownership of the patents was settled by the 1944 Alameda suit; that the decree is res judicata and that the ownership determinations in the prior action are binding in this case. Appellants therefore do not dispute the authorities upon which the District Court relied, namely *Johnson v. Fontana County F. P. District*, (1940) 15 C.2d 380; 2 Freeman on Judgments, § 689; and *People v. Bailey* (1916) 30 Cal. App. 581 (Tr. 314). Appellants submit further that the Alameda proceedings are conclusive in the United States Courts (29 Cal. Jur. 2d 287, *Judgments*, § 302; *Walters v. Wilson* (9th Cir. 1944), 142 F.2d 59 at page 60; *Napa Valley Co. v. R. R. Comm.* (1920), 251 U.S. 366; and *Fletcher v. Nostadt* (4th Cir. 1953), 205 F.2d 896).

Also appellants concede, and indeed urge, that the issue of res judicata may properly be determined on a motion for

summary judgment (*Bros. Inc. v. W. E. Grace Mfg. Co.* (5th Cir. 1958), 261 F.2d 428; *Fletcher v. Nostadt* (4th Cir. 1953), 205 F.2d 896; *Jones v. Zurich General Accident & Liability Ins. Co.* (2nd Cir. 1941), 121 F.2d 761; and *Tuo-lumne Gold Dredging Corp. v. Walter W. Johnson Co.* (N.D. Cal. 1947) 71 F. Supp. 111). "What issues were decided by the former * * * litigation is, of course, a question of law * * *" (*Emich Motors v. General Motors* (1951), 340 U.S. 558, 571).

Appellants submit that the District Court misconstrued the Alameda judgment. The District Court relied only on finding of fact IV which recites that Owens "was and now is the owner and holder of a certain patent" (Tr. 313, Finding IV, Tr. 208). The District Court failed to note that this was not an adjudication that Owens was the *sole* owner of the patents involved. Although the contract set aside recited that Owens was "sole owner" (Tr. 212), this recitation was not incorporated in the findings, conclusions and judgment. This presumably is one of the misrepresentations as to contents underlying the Court's finding (Finding VI, Tr. 212-213).

As said in *Pacific Coast, etc. Bank v. Roberts* (1940) 16 C.2d 800, 805:

"The term 'owner' is generic and being of general application is therefore frequently applied to one having an interest in or claim upon property less than the absolute and unqualified title."

After discussing cases the court concluded, page 805:

"* * * Sufficient has been said to establish that the precise meaning of the word 'own' or 'owner', when not modified by other words indicating either qualified or absolute ownership, depends upon the subject-matter and the circumstances surrounding the subject-matter and the parties."

The Superior Court and the parties were well aware that owner did not mean sole owner. This is undeniably established by subsequent findings of July 13, 1951 which recite, without approval or appearance of or notice to Generator Company, that Owens "now is sole owner" (Tr. 38). Prior to the instant decision, no one thought that Owens was adjudicated to be the sole owner in the 1944 judgment.

Finding V specifies the qualified nature of such ownership by reciting "during all of the year 1940 and the year 1941 plaintiff Owens Generator Company, Inc., by a written agreement between plaintiff Charles H. Owens and plaintiff Owens Generator Company, Inc., was the holder of the exclusive license to manufacture, sell, install and operate vinegar generators of the type covered by the said patent owned by plaintiff Charles H. Owens and more particularly described hereinabove in paragraph IV of these findings, and all improvements thereon." (Tr. 209.) Nothing is found or adjudged to indicate that this relationship terminated between 1941 and 1944. It is presumed that this relationship "continues as long as is usual with things of that nature." (C.C.P. Sec. 1963, para. 32).

The relationship between the owner of a patent and his exclusive licensee or assignee is that of trustee—beneficiary. Authorities bearing on this question are collected in *Ind. Wireless Co. v. Radio Corp.* (1926) 269 U.S. 459. There the court summed the authorities as follows, page 469:

"It seems clear then on principle and authority that the owner of a patent who grants to another the exclusive right to make, use or vend the invention, which does not constitute a statutory assignment, holds the title to the patent in trust for such a licensee, to the extent that he must allow the use of his name as plaintiff in any action brought at the instance of the licensee in law or in equity to obtain damages for the injury to his exclusive right by an infringer or to enjoin infringement of it. * * *".

Authorities in accord include :

“* * * New Marshall Engine Company, which took with notice of the prior transfer * * * held the legal title as trustee for the complainant.” *New Marshall Co. v. Marshall Engine Co.* (1912) 223 U.S. 473, 479.

“* * * He (the patentee) held the legal title to his patent in trust for his licensees. * * *” *Littlefield v. Perry* (1874) 21 Wall. (88 U.S.) 205, 223.

“* * * If the Smith Company had any interest in the patent, as Mills suggested, then it was apparent that George T. Smith, who held the legal title, was trustee for the company.” *Jonathan Mills Mfg. Co. v. Whitehurst* (6th Cir. 1896) 72 Fed. 496, 502.

“* * * the legal title to a patent may be in one person, and the equitable right to it in another * * *”. *Prime v. Brandon Manuf'g Co.* (D. Vt. 1879) 19 Fed. Cas. p. 1324 at p. 1328, Fed. Cas. 11, 421.

“* * * It would be quite absurd to say, in a court of equity, that a party holding an equitable title could be ousted of his equitable rights by the holder of the legal title, who, in such a case, stands in a court of equity, as trustee for the use and benefit of the party beneficially interested.” *Continental Windmill Co. v. Empire Windmill Co. et al.* (N.D. N.Y. 1871) 6 Fed. Cas. p. 367, 368, Fed. Cas. 3, 142.

Further, conclusion of law No. VII recites that “Plaintiffs Charles H. Owens and Owens Generator Company, Inc. are entitled to a decree of this court perpetually enjoining defendant H. J. Heinz Company and its officers, agents and representatives” from engaging in the conduct later recited in the injunction (Tr. 225, 314).

It is said in *Brum v. Ivins* (1908) 154 Cal. 17, 19:

“* * * ‘A judgment in favor of the plaintiff necessarily establishes his right to the relief given *against the person served.*’ * * *”.

And in sustaining demurrers where the joint plaintiffs had no community of interest the court, in *Gartler v. First Nat. Bk. of San Pedro* (1928) 88 Cal. App. 411, said at page 413:

“We think that both the special and general demurrers should have been sustained. ‘All persons having an interest in the subject of the action, and in obtaining the relief demanded, may be joined as plaintiffs, except when otherwise provided in this title.’ (Sec. 378, Code Civ. Proc.) This, of course, means a legal or property interest. (*Toomey v. Knoblach*, 8 Cal. App. 585 [97 Pac. 529].) [1] Plaintiffs may be joined where the action would afford relief to each of them even where the relief would not be exactly the same, but we know of no case holding proper a joinder of plaintiffs where the recovery of one would be inconsistent with the recovery of another.”

A close parallel is found in *Butler v. Collins* (1859), 12 Cal. 457, and *Collins v. Butler* (1859), 14 Cal. 223. In that case E. J. Butler and A. J. Butler were partners in a business. E. J. Butler executed and delivered to Collins a bill of sale for the goods of the partnership. Collins then assumed entire ownership and dominion of the goods and sold and delivered them to a third party. Plaintiffs brought an action in fraud against Collins. A verdict of the jury resulted in a judgment for plaintiffs which was affirmed on appeal subject to a remittitur.

Collins then brought an action in equity to enjoin enforcement of the judgment on the ground that Collins had a setoff against E. J. Butler, one of the plaintiffs in the judgment, and that “the judgment is, and was when obtained, really owned by E. J. Butler” (14 Cal. 227). The court held that the earlier judgment was *res judicata* that the judgment was jointly held by both plaintiffs. At page 228, the court held:

“The complaint, then, putting in issue the joint title, or the joint right to recover damages, the judgment determined the question of that joint title or right; and the very thing adjudicated in this controversy was the fact that these two men, as partners, had good right to a sum of money, before unliquidated, *as partners*. What the form of the verdict is, we are not informed, nor for what particular things the recovery was had—whether for an invasion of joint property, consequential damages, or injury to the business of the plaintiffs, or for the exact value of goods taken and converted. But, it matters not. As the recovery was had by these men as partners, claiming redress for a trespass upon firm property, the judgment was, and became, firm assets, as much as if Collins had voluntarily given his note in consideration of their claim on this account to these men as partners; and if a Court of Equity had been required to determine the nature of this credit, and the relative rights of individual and firm creditors to be paid out of the proceeds of it, no doubt can be entertained that it would be considered and treated as partnership assets.”

The court then analyzed the authorities and found that Collins could not deny that the judgment was a joint judgment.

Similarly in the case at bar, the judgment in the state court action was conclusive on the title issue and Heinz may not now deny the adjudicated fact that Owens, as owner of the patent, and Generator Company, as holder of the exclusive license, jointly owned the judgment.

The face of this judgment, as necessarily interpreted in the light of the findings of fact and conclusions of law, indelibly spreads on the record the respective rights of the plaintiffs, Owens as owner, and Generator Company as holder of the equity in the patents.

The Forfeiture Clause Is Inoperable.

The judgment is *res judicata* that the forfeiture clause upon which the District Court relied and the failure of the company to have corporate existence after January 19, 1943 did not deprive Generator Company of its property rights in the patent. As shown above, the question of Generator Company's rights was put at issue. If, as the District Court here found, the rights of Generator Company automatically terminated, a necessary consequence would have been the dismissal of Generator Company from the suit. The termination of its estate would have been a perfect defense to the claim which Generator Company made against Heinz. In *State of California v. McGlynn* (1862) 20 Cal. 233, it is held, page 275:

“* * * But it is always an absolute objection to the allowance of an injunction, for the purpose of protecting property during a litigation that the complaint show that the party seeking the injunction has no title or interest in the property, and no claim to the ultimate relief sought by the litigation; in other words, that the complaint shows no equity.”

The general rule is set forth in 2 Freeman on Judgments, page 1646, § 774 as follows:

“It may likewise be laid down as a general rule that any matters purely defensive, which were available even though not presented, and obviously all those actually presented, are merged in and conclusively adjudicated by an adverse judgment on the merits and cannot be used as the basis of a claim or defense in a subsequent action, even though the judgment was by default or the defendant was taken by surprise at the trial. A matter of pure defense, though not interposed to defeat an adverse judgment, cannot be made the basis of an independent action. The failure to interpose a defense is equivalent to interposing it and having it overruled, where judgment goes against the defendant.”

Here, the defense of lack of interest in the controversy was made and overruled.

Special attention should be given to the conclusion of the Alameda court that plaintiffs Owens and Generator Company are entitled to a decree (Tr. 225) as well as to the decree itself (Tr. 33-34) which does not purport to adjudicate any issues adversely to Generator Company. If for any reason the condition subsequent were operable to avoid the equitable title of Generator Company, no judgment could have been granted in favor of Generator Company.

It is indisputable that the condition subsequent came to pass. On January 19, 1943, 10 months before the action was filed, Generator Company was deprived of its charter under the New Jersey Statutes, Title 54, Chapter 11, §§ 1 and 2. Under Title 54:11-2, “* * * all powers conferred by law upon [the company] shall thereafter be inoperative and void.” Thus, Generator Company no longer existed “for the purpose of continuing the business for which [it was] established.” New Jersey Statutes, Title 14:13-4. Therefore it is indisputable that the condition subsequent was adjudicated to be ineffective.

In *Marshall v. Shafter* (1867) 32 Cal. 176 the court, in speaking of a prior judgment entered in an ejectment action, said, page 194:

“* * * The object of the action of ejectment, so far as the form of the recovery alone indicates it, is to recover the possession of premises which the defendant unlawfully withheld from the plaintiff. The judgment for the plaintiff determines that he was entitled to the possession, at the commencement of the action and the rendition of the judgment. (Yount v. Howell, 14 Cal. 465; Calderwood v. Brooks, 28 Cal. 151; Hardy v. Johnson, 1 Wall. 371.) * * *”

In speaking of another prior action which was brought in equity to set aside a certain deed, the court said, page 199:

“The object of the suit of *Shafter v. Reynolds* was to set aside a certain deed in the hands of Elizabeth Reynolds, as a cloud upon the title of the plaintiffs in that action. It does not appear from the record in that case that the title now claimed by the present plaintiff was involved in the action. (*Hamm v. Arnold*, 23 Cal. 373; *Hager v. Schindler*, 29 Cal. 57.) And if it can be said that it was actually or necessarily in issue, it would be difficult to see how the adjudication could have been in their favor, for *it must have been found that the plaintiffs in that action held the title, otherwise there would have been no basis for the judgment that the deed to Elizabeth Reynolds was null and void*, and that she convey to the plaintiffs all the claim of title she derived through that deed. The Court could not have granted the plaintiffs any relief against the deed had it been found that title was in any of the defendants.” (Emphasis added.)

And it is later noted in *Riverside Land, etc. Co. v. Jensen* (1895) 108 Cal. 146, at page 147 as follows:

“* * * The effect of the judgment against Cornelius Jensen, defendant’s predecessor, was to estop the latter, and the defendant who claims under him, from asserting title adverse to plaintiff anterior to the entry of that judgment. (Freeman on Judgments, §§ 300, 309; *Marshall v. Shafter*, 32 Cal. 195; *People v. Center*, 66 Cal. 559, 562.) * * *”.

Further the voluntary joinder of Owens and Generator Company in asserting rights on behalf of both of them in the patents is a waiver of the forfeiture clause which could not be recaptured after the entry of the judgment. It was held in *Jones v. Maria* (1920) 48 C.A. 171, at page 173:

“* * * Waiver is the intentional relinquishment of a known right, or such conduct as warrants an inference of the relinquishment of such right—an election by one to forego some advantage he could have taken or insisted upon. A person who is in a position to assert a

right or insist upon an advantage may, by his words or conduct, and without reference to any act or conduct of the other party affected thereby, waive such right. Once such right is waived, it is gone forever; the person who has waived the right will thereafter be precluded from asserting it. 'The courts, not favoring forfeitures, are usually inclined to take hold of circumstances which indicate an election to waive a forfeiture.' (*Queen Ins. Co. v. Young*, 86 Ala. 424, [11 Am. St. Rep. 51, 5 South, 116].)"

Haserot v. Keller (1924) 67 Cal. App. 659 involves a transfer of patent rights in which the patentee alleged a forfeiture of an underlying agreement in defense of a fraud action. At page 669 the court said:

"* * * But forfeitures are not favored in the law; and any inconsistent acts or dealings by the party claiming a forfeiture will be regarded as a waiver thereof. To constitute a waiver there need not be a new agreement nor a valuable consideration. (*Viele v. Germania Ins. Co.*, 26 Iowa, 9 [96 Am. Dec. 83]; *Roble v. Masonic Life Assn.*, 38 Misc. Rep. 481 [77 N.Y. Supp. 1098].) A simple voluntary relinquishment of a right with knowledge of all the facts—an expression of intention, by speech or conduct, not to demand a certain thing—is sufficient to constitute such a waiver."

Also:

"* * * A forfeiture, once waived is, however, gone forever, and cannot be revived by a change of mind of the party making the waiver or by subsequent events." *Sanitary District of Chicago v. Chicago Title and Trust Co.* (1917) 278 Ill. 529; 116 N.E. 161, 168.

Finally, the fiduciary relationship between Owens and Generator Company was such that it would have been a breach of his fiduciary duties and obligations to permit him to declare a forfeiture of the license. The condition came to

pass because of lack of funds to pay the franchise tax. However, the sad financial condition of the company was due directly to the excessive withdrawals by Owens of salary before the company became established. The fiduciary duty of an officer of a corporation is well stated in *Daniel Orifice Fitting Company v. Whalen* (1962) 198 A.C.A. 870 at page 876, as follows:

“As an officer of the plaintiff corporation for four years Whalen participated in management and necessarily owed a fiduciary duty to that company to put forth his best efforts and advance the position of that company in every way possible. * * *”

Other cases in accord include *San Francisco Water Co. v. Pattee* (1890), 86 Cal. 623, 629; *Wickersham v. Crittenden* (1892), 93 Cal. 17, 28-30; and *Pacific Vinegar etc. Works v. Smith* (1904), 145 Cal. 352, 365-366.

Because of this fiduciary relationship it is considered improper for a fiduciary to enforce a condition against his principal whenever he has any responsibility for bringing the condition to pass. This result occurred in *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349. In speaking of a similar breach of condition the court there held the condition inapplicable, stating, page 358:

“In this situation, it is the opinion of the Court and the Court finds that Sunset Oil Refining Company had not lost title to the patents and patent applications hereinbefore described because of a breach of the terms of the written agreement of May 5, 1900, between Jesse A. Dubbs and Sunset, when they were assigned by Dubbs to Dunham on May 15, 1914.

“Since Jesse A. Dubbs was the admitted master and the alter ego of Sunset Oil Refining Company in which minority stockholders had an interest by virtue of a capital investment, he was legally charged with a trust to use and protect the company’s assets for the benefit of stockholders. (Citations omitted).”

The Authorities Cited by the District Court Are Distinguishable.

The decisions upon which the District Court relied do not warrant a contrary conclusion. *Kenyon v. Automatic Instrument Co.* (W.D. Mich. S.D. 1945) 63 F. Supp. 591 (cited Tr. 311) was reversed on appeal. In *Kenyon v. Automatic Instrument Co.* (6th Cir. 1947) 160 F.2d 878, the court held that the receivership of the grantee did not destroy the patent rights. At page 884 it said:

“* * * It cannot be said with any degree of justification that appellee took the patent here involved free from Kenyon’s claim. It is an ancient maxim that ‘equity follows the law’ and the law conserves and enforces rights, never destroys them. Pomeroy’s Equity Jurisprudence, 4th Ed. § 1577 * * *”.

Pierpoint Boiler Co. v. Penn. Iron & Coal Co. (N.D. Ohio E.D. 1896) 75 Fed. 289 (cited Tr. 312) is clearly distinguishable. There the purchaser of the patent was not a party to earlier litigation involving the construction of the forfeiture clause. The court concluded, page 293:

“* * * The relations of the parties are not such as to operate as an estoppel so as to make the issues res judicata. * * *”

Further, the court found “the equities of the case are with the complainant” who claimed to be the holder of title under the forfeiture. In the case at bar there has been no showing that any equities are with Heinz. Heinz’s entire course of conduct with regard to the generator from the very beginning has heretofore been adjudicated to be in bad faith.

In *Haffcke v. Clark* (4th Cir. 1892) 50 Fed. 531 (cited Tr. 311) the agreement held to be a license was one wherein a patentee “contributed all the rights to manufacture under the letters patent” (50 Fed. 535). Without the right to use, e.g. to install and operate, the *Haffcke* agreement was a

mere license (*Waterman v. Mackenzie* (1891), 138 U.S. 252, 257). In the case at bar the right transferred is "the sole and exclusive right, privilege, and license within the United States to manufacture, sell, install and operate" which is the entire patent monopoly, namely "the right to exclude others from making, using or selling the invention throughout the United States" (U.S. Code, Title 35, § 154).

The Law Protects a Holder of an Unrecorded Equity When Notice Is Present.

When Heinz acquired the patent rights, Owens was the holder of the record title to the patents. Heinz recorded its assignments from Owens in accordance with U. S. Code, Title 35, Section 261 which provides:

"An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent Office within three months from its date or prior to the date of such subsequent purchase or mortgage."

The grant from Owens to Generator Company was not recorded. Under the statutory law, then, Heinz is protected if it was "without notice".

The question of what constitutes notice sufficient to protect the holders of a prior unrecorded equity are legion. The cases fall into two general classes.

The first class of case is that in which the purchaser has actual knowledge of the equity either directly or imputed to it through officers and other agents. Where such actual or imputed notice is present, cases which recognize the equity of the beneficial owner include *Taylor Engines v. All Steel Engines* (9th Cir. 1951) 192 F.2d 171 affirming *All Steel Engines v. Taylor Engines* (N.D. Cal. 1950) 88 F. Supp. 745; *New Marshall Co. v. Marshall Engine Co.* (1912), 223 U.S. 473, 479; *Ambler v. Whipple* (1874), 20

Wall. (87 U.S.) 546, 560; and *Continental Windmill Co. v. Empire Windmill Co., et al.* (N.D. N.Y. 1871) 6 Fed. Case 366, at page 368, Case No. 3142.

The second class of case includes those in which the notice is not actual notice but constitutes notice of suspicious circumstances sufficient to put a prudent man upon inquiry. Absent proof of diligent inquiry such cases infer notice. Examples of cases of this class include *Daily v. Universal Oil Products Co.* (N.D. Ill. Ed. 1947) 76 F. Supp. 349, 358, 360, 362, 363; *L. A. Young Spring & Wire Corporation v. Falls* (1943) 307 Mich. 69, 11 N.W. 2d 329, 343; *Kittle Mfg. Co. v. Davis* (1935), 8 Cal. App. 2d 504, 516; *Thompson v. Automatic Fire Protection Co.* (2nd Cir. 1914), 211 Fed. 120, 121; *Electric Storage Battery Co. v. Gould Storage Battery Co.* (W.D. N.Y. 1912) 197 Fed. 745, 749; *National Cash Register Co. v. New Columbus Watch Co.* (6th Cir. 1904), 129 Fed. 114, 116, 123; *Jonathan Mills Manuf'g. Co. v. Whitehurst* (6th Cir. 1896), 72 Fed. 496, 501; *Stanton Manuf'g Co. v. McFarland* (N.J. Ct. of Chan. 1895), 30 Atl. 1058, aff. in *McFarland et al. v. Stanton Manuf'g Co.* (1896), 53 N.J. Eq. 649, 33 Atl. 962; *Auburn Button Co. v. Sylvester* (1893), 72 Hun. 498, 25 N.Y.S. 237, affirmed without opinion (1895), 147 N.Y. 714, 42 N.E. 721; *Hamilton v. Kingsbury* (N.D. N.Y. 1880), 4 Fed. 428, 431, 435; and *Prime v. Brandon Mfg. Co.* (D. Vermont 1879), 19 Fed. Case, Page 1324, at page 1325, Case No. 11,421. In this regard patent properties are treated the same as other properties. The varied and different facts giving rise to implied notice in other cases are collected in 39 Am. Jur. 238, Notice and Notices, § 12, Means of Knowledge as Notice; 46 Am. Jur. 630, Sales, § 465, Requirement of Purchase for Value Without Notice; 54 Am. Jur. 212, Trusts, § 268, Duty of Inquiry; and 55 Am. Jur. 1075, Vendor and Purchaser, § 697, Notice Based on Suspicious Circumstances; Duty of Inquiry.

Several of the cited cases involve notice of equitable rights of defunct corporations. Such cases include *Daily v. Universal Oil Products Co.* (N.D. Ill. Ed. 1947) 76 F. Supp. 349; *New Marshall Co. v. Marshall Engine Co.* (1912) 223 U.S. 473; *Jonathan Mills Manuf'g Co. v. Whitehurst* (6th Cir. 1896), 72 Fed. 496, 502; *Auburn Button Co. v. Sylvester* (1893) 72 Hun. 498, 25 N.Y.S. 237, affirmed without opinion (1895) 147 N.Y. 714, 42 N.E. 721; and *Prime et al v. Brandon Manuf'g Co.* (D. Vt. 1879) 19 Fed. Case, Page 1324, at page 1326, Case No. 11,421. Conditions subsequent were held unavailable in the *Daily* and *Prime* cases. A defunct New Jersey corporation was involved in the *New Marshall* case.

Individually no single case involves a complex of facts identical with the undisputed facts present in the case at bar. However, collectively some one or more of the notice facts in the present case are commented upon in the foregoing decisions. As a convenience to the Court and to shorten this brief, non-argumentative abstracts including apt quotations in all of the foregoing cases are contained in alphabetical order in the appendix to this brief in accordance with Rule 18, Paragraph 2(e).

The common thread running through all of the cases is that a person acquiring an interest in patent rights is not entitled to rely upon the record title if he has notice of any facts indicating that the record title may be subject to equities of a third party. Where the assignee relying upon the record title has notice of suspicious circumstances he is bound to make inquiry to determine what the true title is. Agreeable to the rule of the foregoing cases, appellants now analyze the facts and show that as a matter of law Heinz had notice of such facts as to make the bona fide purchaser for value defense unavailable to it.

Heinz Had Actual Notice of the Equity of Generator Company.

Appellants submit that actual notice is clear on the present record without genuine issue of fact. This notice is spelled out in detail on the face of the 1944 Alameda judgment, findings of fact and conclusions of law. As shown above, this judgment was rendered in favor of Generator Company as well as Owens personally (Conclusions VI and VII, Tr. 225-226; Judgment and Decree, Tr. 33-34). The findings of fact disclose that Generator Company had "the exclusive license to manufacture, sell, install and operate vinegar generators of the type covered by the said patent owned by plaintiff Charles H. Owens" (Finding V, Tr. 209). Since Heinz was a party to this judgment and was bound by it, it must have had notice of the facts recited in the judgment and in the findings of fact (Cf. *Armstrong v. Ashley* (1907), 204 U.S. 272, 281, 283; and *Germania Life Ins. Co. v. Koehler* (1895), 59 Ill. App. 592, 594).

The very split up of the stated consideration for the purchase price of the several assets reflects actual knowledge. For a stated consideration of \$10,000, Heinz obtained release and quashing of a mandatory injunction which would have required the destruction of sixteen vinegar generators having a total value of \$160,000 (Compare release and satisfaction, Tr. 419 with evaluation of the Supreme Court, 42 C.2d 168). Further for this same price Heinz obtained a release of a civil action invited by the Supreme Court, having a prima facie value of \$375,934.66 plus \$526.00 per day from March 24, 1952 forward for violation of the injunction (Compare release and satisfaction, Tr. 419-420 with opinion of Supreme Court, 42 C.2d 168, 174-175). Thus, for \$10,000 Heinz obtained rights having the following prima facie values.

Value of Vinegar Generators.....	\$160,000.00
Release of Damages accrued to March 24, 1952	375,934.66
Release of \$526.00 per day from March 24, 1952 to May 15, 1954 (782 days).....	411,332.00
TOTAL	<u>\$947,266.66</u>

This is a little more than one cent on the dollar. But even if the split up be disregarded as fictitious (a fact in and of itself suspicious), notice is reflected by the figures.

To this total there would be added the value which Generator Company placed upon the patents namely \$195,252.00, which incidentally is less than the value of \$240,000.00 which Heinz purported to apply to the purchase of the two patents. The value of the total assets which Heinz acquired thus had a prima facie value of \$1,142,518.66. Heinz' purchase price of \$250,000 is approximately 22% of the total prima facie value of the property purchased. This is much less than the 37½% stock interest which Owens had in the company.

Even if the patents be written down to zero and all of the consideration were allocated to the claims totaling \$947,266.66, this would be under 27 cents on the dollar, still far less than the value of Owens' equity in the property alone.

Clearly then, the consideration is confirmatory that Heinz had actual notice of the title defects. As stated in Merrill on Notice, Section 54:

"Giving inadequate consideration for property acquired, while in one sense not unusual business conduct, in view of the ethics of the market place approving the driving of bargains as favorable to one's self as possible, may be analogized thereto, in that *ability to secure so choice a trade may suggest that inquiry was made or that the parties were in such close accord as*

to warrant supposition of knowledge. Many cases appear to infer knowledge of defect in title or of conveyance in fraud or hindrance of creditors from purchase upon inadequate consideration. Decisions apparently denying it may be explained upon the ground that the disparity in price was not enough to arouse suspicion." (Emphasis added.)

In *People v. Malouf* (1955), 135 Cal. App. 2d 697, the question was whether the defendant had knowingly sold stolen goods. At page 706, the court said:

"* * * Defendant sold seven diamonds for \$300, the price offered by Stillano. There was testimony (by Dessy) that the value of those diamonds was about \$730. According to that testimony, defendant sold those diamonds for about one-half their value. A sale of property at a price which is disproportionately low in comparison with the value of the property may be a suspicious circumstance. See *People v. Gould*, 111 Cal. App. 2d 1, 7, 243 P.2d 809; *People v. O'Shaughnessy*, 135 Cal. App. 104, 110-111, 26 P.2d 847. * * *"

A third item clearly indicative of actual notice is Heinz' joinder with Owens in stipulating "that the facts stated in the foregoing motion are true" in support of a false representation "that the license from plaintiff Charles H. Owens to Owens Generator Company, Inc. was terminated in 1945 and said Owens Generator Company, Inc. has not had any interest in any of said patents since then * * *" (Tr. 262-263). The entry of this stipulation of necessity imports the fact that Heinz knew that the equity of Generator Company was still in existence at the date of the entry of the 1944 judgment—for otherwise it would not have represented that the license "was terminated in 1945." Heinz introduced no evidence supporting the representation that the license terminated in 1945 for any reason whatsoever.

Further Heinz had actual knowledge that Owens had no right to deal with the patents without the consent of Generator Company. As shown above, on November 25, 1941 Heinz took from Owens a non-exclusive "license under Letters Patent of the United States, No. 2,089,412, granted August 10, 1937 (of which I am sole owner) * * *" (Tr. 212). Heinz had actual notice that Generator Company did not "authorize plaintiff Charles H. Owens as its president or otherwise to sign or execute said document" (Tr. 214). Generator Company joined in filing suit against Heinz for obtaining the license without its consent. Generator Company obtained a joint judgment against Heinz for doing so. Would not this place a reasonable person on notice that Generator Company would complain if Heinz obtained the entire interest in the patents without authorization of Generator Company? Patently, Heinz had notice that Owens did not have the right to deal with the assets without express consent of Generator Company.

Lastly, the question of actual notice should be appraised in the light of the fact that Heinz had already been twice adjudicated to be a fraud feisor with respect to the very subject matter which it purchased. It was held in *Butler v. Collins* (1859) 12 Cal. 457 at page 465:

"The only objection to all this testimony, as conducing to prove the original fraud, is, that it is matter *ex post factor*, and though it may be proof of fraud or bad faith, yet it is not proof that the fraud was in the contract itself. In cases of fraud, the rule which admits testimony to impeach it is liberal, both in civil and criminal cases, and subsequent acts are frequently resorted to for the purpose of showing antecedent fraud. So far does the rule extend, that distinct frauds, contemporaneous in their perpetration, are admissible to prove the fraud of the transaction under investigation. But in this case, the fraud being proven in refer-

ence to this very transaction, the date of the criminal intent must necessarily be a matter of inference for the jury. Thus, the dealing with property to-day as his property, by the vendor, is evidence to show the fraud committed in a sale a month ago. The subsequent acts are illustrative of the intent and character of the first. We cannot well understand why, when a man openly violates his engagements, so as to give a false and fraudulent effect to something which he has done before, a jury may not as well date the fraudulent intent from one period as another of the transaction, or what rule of charity requires us to date his fraud at a period which would be most advantageous to the perpetrator of the fraud. If a man goes to a livery stable, and pretends to hire a horse to go to one point, and starts off to a different place, in a different direction, and there sells him, we do not see that Courts would be bound to presume that his original motive was honest, but that he changed it afterwards.

“But, apart from this, the declaration of Collins already quoted, on the eighteenth, gives color to the transaction. It shows, if believed, a purpose reckless of moral obligation, and is a clear intimation that the only or main purpose of the arrangement with the Butlers was to get possession of the store; and certainly the other circumstances are not inconsistent with this hypothesis. But all that it is necessary to show is, that there was evidence tending to this result; and upon that question we have no sort of doubt.”

The converse is equally true—here Heinz has been found guilty of fraud in the original transaction of November 25, 1941 and it has been found that this fraud continued without interruption to the final erection and operation by Heinz of 16 vinegar generators which are substantially identical with that erected by Generator Company under the patent. Heinz has introduced no evidence that its present conduct can be divorced “from the facts that were developed by the

evidence produced at the original trial with respect to the effort by defendant H. J. Heinz Company to acquire the benefits of plaintiff's patents through actual and gross fraud, trickery and deceit." (Tr. 47.)

Appellants therefore submit that the question of equitable title should be resolved in favor of appellants on the authority of *Taylor Engines v. All Steel Engines* (9th Cir. 1951) 192 F.2d 171. In that case the court referred an earlier California State Court action seeking a declaratory judgment determining the interests of the parties to the invention. At page 173 this court said:

"* * * The suit resulted in a judgment finding the Nevada corporation to have a valid exclusive license. *Taylor v. Selig*, 1946, 28 Cal. 2d 634, 170 P.2d 913. * * *"

The court then turned to the patent recording statute and as to this said, page 174:

"* * * The equitable claim of the Nevada corporation could have been cut off by a sale to a bona fide purchaser, but the appellants have failed to place themselves in that class. The trial Court found, on substantial evidence, that at the time the individual appellants took the conveyance from Taylor they took with notice of the prior exclusive license to the Nevada corporation. Taylor Engines was formed by appellants for the purpose of acquiring title to the patents and exploiting them; they were its officers and acted on its behalf, as well as individually, in the transaction whereby the corporation acquired its interest in the patents. These circumstances impute the knowledge of the individuals to the appellant corporation. 3 Fletcher, *Cyclopedia of Corporations*, §§ 799, 803, 809, 827 (1947). This same notice precludes appellants from relying on the statutory requirement of recordation of patent assignments. 35 U.S.C.A. § 47."

Or, as District Judge Roche said in the underlying decision in *All Steel Engines v. Taylor Engines* (N.D. Cal. S.D. 1950) 88 F. Supp. 745, 747:

"The fact that this license was not recorded in the Patent Office does not affect its validity as between the parties to the assignment, *Fyrac Mfg. Co. v. Bergstrom*, 7 Cir., 24 F.2d 9, nor as against any subsequent purchaser who had actual notice of such prior assignment when purchasing. 35 U.S.C.A. § 47; *Why Corp. v. Super Ironer Corp.*, 6 Cir., 128 F.2d 539; *John Tuman & Sons v. Basse*, 2 Cir., 113 F.2d 928; 2 Walker, *supra*, § 342, p. 1411. The question, therefore, is whether the defendants did have actual notice of such prior assignment. There is substantial evidence that they did."

Appellants further submit that as a consequence of this notice it is immaterial that "the patent stands in the name of Chas. Owens alone" and "The patents stood in the name of Owens alone. All evidence of record showed it to be Owens' patent." (Tr. 313). Appellants submit that the proper rule which the District Court should have applied is that which the court applied in *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349, 363:

"* * * They contend, first, that Dubbs was the owner of the record title to the patents. But under the authorities cited, the circumstances which surrounded the purchase of the patents dispelled the force of the record title. * * *."

Or as stated in *National Cash Register Co. v. New Columbus Watch Co.* (6th Cir. 1904) 129 Fed. 114, 123:

"* * * The facts which the complainant must be taken to have known pointed plainly to the probable existence of a right or title in conflict with that which they were about to buy. It became complainant's duty, therefore, to make inquiry as to the existence and

extent of this probable outstanding equitable, but prior, right; and an inquiry of Neer only was not a reasonable compliance with this duty. The failure to make reasonable inquiry under such circumstances convicts complainant of a degree of negligence inconsistent with the claim to be a bona fide purchaser without notice. * * *"

Heinz Also Had Implied Notice.

The actual notice present in this case is further buttressed by implied notice of additional facts which imposed upon Heinz the duty of inquiry over and far beyond the actual notice which it had. These facts are undisputably spelled out on the record.

In the first place, Heinz had actual notice that it was dealing with a trusted fiduciary of Generator Company who was president of the company, a director of the company, the holder of 37½ shares of the capital stock of the company, and the alter ego of the company. This knowledge it acquired by virtue of all of its dealings with the company and appears in blueprints, letters, contracts, and court findings (Tr. 409, 410, 538, 411, 416, 548-549, 555-557, 559, 371-372). Such facts established the strong possibility that Generator Company was the equitable owner of the patents (*Daniel Orifice Fitting Co. v. Whalen* (1962) 198 A.C.A. 870; and *Dowse v. Federal Rubber Co.* (N.D. Ill. E.D. 1918) 254 Fed. 308). Knowledge of similar facts has been held sufficient to impose a trust in *Ambler v. Whipple* (1874) 20 Wall. (87 U.S.) 546 at page 559; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349, 362; *L. A. Young Spring & Wire Corporation v. Falls* (1943) 307 Mich. 69, 11 N.W. 2d 329, 343 and *Stanton Manuf'g Co. v. McFarland* (N.J. Ct. of Chan. 1895) 30 Atl. 1058, at page 1059, affirmed in *McFarland, et al v. Stanton Manuf'g Co.* (1896) 53 N.J. Eq. 649, 33 Atl. 962).

Secondly, Heinz knew that Generator Company actually used the patented designs in its business and claimed to be the owner of the designs. The drawings of Owen's patent 2,089,412 (Tr. 525-529) are incorporated in the generator assembly drawing of Generator Company (Tr. 538). This structure in turn was the structure with modifications which Generator Company built for Heinz under the contract of August 28, 1940 (Tr. 416). Heinz in turn knew that the right to build and operate such vinegar generators required a license under Patent 2,089,412 (Tr. 212). This coupled with the fact that the Generator Company claimed a continuing interest in the patent properties at least as late as the entry of judgment should have put Heinz on notice as to the rights of Generator Company in the designs and patents. As held in *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349 at page 362:

"The legal effect of the use and possession of the patents by Sunset Oil Refining Company, of which Leszynsky and Belknap had actual knowledge, is stated in the case of *Prime et al. v. Brandon Manufacturing Co.*, C.C. Vt. 1879, 19 Fed. Cas. page 1324, No. 11,421. * * *"

In *Prime et al. v. Brandon Manuf'g Co.* (D. Vt. 1879) 19 Fed. Cas. page 1324, Cas. No. 11,421, the court said at page 1325:

"* * * The inventions were then, and for a long time had been, in full and open use by that company, and this reference to that use, in the very deeds to Meecham and Luce, was not only constructive notice to them of the fact of such use, but was express information of it, if they did not have that information otherwise. * * * This use by the defendant was possession of the monopoly, as far as that use extended, at least, which is as far as this controversy, embraced in the original bill, extends; and this possession, when actually known, was constructive notice of the claim of right under which

the possession and use were had, the same as the possession of land is notice to a purchaser of the legal title of any equitable right which the possessor may have.

* * * Had they inquired by what right the use of these patented inventions was had, they would probably have learned the truth about it, and must now stand as if they had enquired and learned it, which leaves them with precisely the same rights as Strong, their grantor, had, which were the same that he and Ross had."

Thirdly, Heinz was represented by highly qualified counsel in its purchase of the properties who had ample opportunity to study the record. Although its principal counsel Moses Lasky and Brobeck, Phleger & Harrison (Tr. 262) did not come into the case until the California Supreme Court proceedings (*H. J. Heinz Co. v. Superior Court* (1954) 42 C.2d 164), Heinz had been represented by the same patent counsel throughout the entire transaction beginning with the initial negotiations looking toward the construction of the vinegar generator and ending with the acquisition of the assets of Generator Company.

In August of 1939 Heinz "sent its Mr. Montgomery and its patent attorney, Mr. Bayard H. Christy of the firm of Christy and Wharton, Farmers Bank Building, Pittsburgh, Pennsylvania, to the plant of the Frank Tea & Spice Company to inspect the Owens Generator which was there installed and in operation." (Tr. 414). Robert O. Bentley, the attorney for Generator Company, was the party who dealt with Bayard H. Christy, Esq. of Messrs. Christy & Wharton in forwarding the blueprints of the plant which bore the company indicia (Tr. 411). At the contempt proceedings Heinz was represented by general counsel "together with Christy, Parmelee & Strickland (by William H.

Parmelee)" (Tr. 36). William H. Parmelee and Christy, Parmelee and Strickland represented Heinz in the 1951 appeal before this Court (*H. J. Heinz Co. v. Owens* (9th Cir. 1951) 189 F.2d 505). William H. Parmelee was one of the attorneys for Heinz on the petition for certiorari (*H. J. Heinz Co. v. Owens* (1952) 342 U.S. 905). William H. Parmelee and Christy, Parmelee and Strickland were among counsel for the petitioner in the State Supreme proceedings (*H. J. Heinz Co. v. Superior Court* (1954) 42 C.2d 164). Finally, William H. Parmelee was one of the attorneys for Heinz who falsely represented to the Superior Court the facts which resulted in a modification of the 1944 judgment (Tr. 261-263). Christy, Parmelee and Strickland specialize in patents, trade mark law and allied subjects (Martindale Hubbell Law Directory, 1962 Edition, Vol. III, page 5092).

This is an element therefore to be considered on notice as appears from *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349, 363:

"* * * Belknap was a patent attorney and he undoubtedly was familiar with the legal possibility of the equitable title to patents resting in parties other than the holder of the record title."

For the foregoing reasons appellants submit that it was clear error on the undisputed facts in this case for the District Court to conclude that Heinz was without notice. On the facts, Heinz had both actual and implied notice as a matter of law sufficient to deprive it of the bona fide purchaser defense. Its failure to make inquiry in this case can be based only upon the proposition that Heinz was willing to take a chance on the title in view of the bargain which it had made. For \$250,000 it was able to get apparent title

from Owens of properties and choses in action having a prima facie value of over one million dollars. It knew that the stockholders of Generator Company "have fantastic ideas that someone should give them a lot of money" (Tr. 548). It had nothing to lose and everything to gain by risking the possibility that Generator Company would not find out about the transaction.

Appellants Ask for Judgment in Their Favor on This Appeal.

Heinz asserts that "there is no genuine issue as respects this defendant, as to any material fact * * *" (Tr. 198). The Court found, in a judgment prepared by the attorneys for Heinz, "that there is no genuine issue as to any material fact as between plaintiffs, or any of them, and defendant H. J. Heinz Company." (Tr. 316). Appellants submit that the undisputed facts in this case clearly demonstrate that Owens, in violation of his trust to Generator Company, and in fraud of the rights of Generator Company, deliberately entered upon a scheme by which Generator Company was to be deprived of the benefit of the equitable rights which it held in the patents as well as its interest in the Alameda judgment and in the choses in action arising from Heinz' violation of that judgment. Heinz has so far knowingly connected itself with and aided in the fraud on Generator Company that it cannot resist Generator Company's right to the patents, to the profits made or to be made out of them and to damages resulting from the destruction of the judgment itself. The foregoing discussion is a virtual paraphrase of the concluding portion of the opinion in *Ambler v. Whipple* (1874) 20 Wall. (87 U.S.) 546 at pages 558-559. Although the specific breach of trust and the specific intermeddling are specifically different,

they are generically the same. Appellants submit that the same result is that reached at page 559 should follow here, namely:

“* * * The result of these views is that the decree of the Supreme Court of the District must be reversed; that a decree must be entered in that court declaring Whipple and Dickerson to hold in trust for the benefit of Ambler to the extent of one-half the two patents issued to them, mentioned in the pleadings as 95,665 and 102,662; that an accounting be had as to the profits realized by them, or either of them, from the use or sale, or otherwise, arising from said patents, and for such other and further proceedings as may be In Conformity to this Opinion.”

And so here appellants ask this Court to reverse the decree of the District Court with instructions to enter a summary judgment declaring Heinz to hold in trust for the benefit of Generator Company the two patents issued to Owens and the value of the choses in action destroyed by Heinz and Owens; and to direct the District Court to order an accounting as to the profits realized by Heinz and Owens, or either of them, from the use or sale, or otherwise, arising from said patents and from the destruction of said judgment.

Although *Ambler* was not decided on a motion for summary judgment, the same result should flow from the submission of legal issues as an undisputed issue of fact by the defendant although it must be conceded that there is here no cross motion for summary judgment. Appellants contend that on those same undisputed facts that judgment should be awarded to them on this appeal without the formality of a cross motion for summary judgment. The cases which justify judgment for the non-moving party are myriad.

The rule which appellants ask this court to apply is that applied in *Local 33, Int. Hod Carriers, etc. v. Mason Tenders, etc.* (2nd Cir. 1961) 291 F.2d 496, 505:

"There remains the question whether there is authority to grant summary judgment for defendants in the absence of a cross-motion for summary judgment. It is Professor Moore's view that such a motion would be a mere formality and is unnecessary in a situation such as we have before us, where the proofs before the court show plaintiff has no case. Moore's Federal Practice, Vol. 6, pp. 2088-9. Although the writer of this opinion expressed a contrary opinion in 1948 as a District Judge, *Truncale v. Blumberg*, D.C., 8 F.R.D. 492, he is glad to take this occasion to state that he has changed his mind. Especially where there are several motions by the respective parties and the evidence of the facts bearing on the issues arising out of the complaint is all before the court in affidavit form, it is most desirable that the court cut through mere outworn procedural niceties and make the same decision as would have been made had defendant made a cross-motion for summary judgment."

In *American Auto. Ins. Co. v. Indemnity Ins. Co.* (E.D. Penn., 1952) 108 F. Supp. 221 affirmed (3rd Cir. 1956) 228 F.2d 622, the question of the construction of an insurance policy was determined on the defendant's motion for summary judgment in favor of plaintiff. At page 224 the court stated:

"This motion for summary judgment comes from the defendant. The plaintiff has not moved for summary judgment. In the defendant's motion, however, it is asserted that there is no genuine issue as to any material fact and I agree that there is none. In view of the Court's finding that on the undisputed record the defendant is liable to the plaintiff, the sensible and practical thing to do is to enter a summary judgment

in favor of the plaintiff. This is in accord with the practice approved in *Northland Greyhound Lines, Inc., v. Amalgamated Ass'n. of Street, Electric Railway and Motor Coach Employees of America*, Division 1150, D.C., 66 F. Supp. 431, 433, where the Court said, 'where the case is properly disposable by summary judgment the court should enter whatever judgment is proper in the circumstances. This should be particularly true where the relief asked is a declaration of the rights of the parties to a contract under the Declaratory Judgment statute. While it may be the better practice to file a cross-motion I do not think that Rule 56(c) proscribes the court's power to enter judgment because of the mechanical failure of one of the parties to file a motion. This view finds support in 3 Moore's Federal Practice, Sec. 56.02 page 3183'."

Other cases in accord include *United States v. Manufacturers National Bank* (N.D. N.Y. 1961) 198 F. Supp. 157, 158; *Bell v. Waterfront Commission of New York Harbor* (S.D. N.Y. 1960) 183 F. Supp. 175 (aff. 2nd Cir. 1960), 279 F.2d 853; *United States v. Cless* (M.D. Penn. 1957) 150 F. Supp. 687, affirmed (3rd Cir. 1958), 254 F.2d 590; *Farmers Insurance Exch. v. Allstate Insurance Co.* (E.D. Mich. S.D. 1956) 143 F. Supp. 213, 215; *Dickoff v. Shaughnessy* (S.D. N.Y. 1956) 142 F. Supp. 535, 542; *United States v. Franklin Federal Savings & Loan Ass'n.* (M.D. Penn. 1956), 140 F. Supp. 286, 288; *St. Louis Fire & Marine Insurance Co. v. Whitney* (M.D. Penn. 1951), 96 F. Supp. 555, 565, 566; *Hennessey v. Federal Security Administrator* (1949), 88 F. Supp. 664, 668; *Commercial Credit Corp. v. California Shipbuilding Corp.* (S.D. Cal. C.D. 1947), 71 F. Supp. 936, 937, 939; and *Northland Greyhound Lines v. Amalgamated Ass'n. etc.* (D. Minn. 1946), 66 F. Supp. 431, appeal dismissed by appellant (8th Cir. 1946), 157 F.2d 329.

The fact that damages are not wholly liquidated would not seem to preclude the grant of summary judgment on this appeal. Rule 56(c) provides:

“* * * A summary judgment, interlocutory in character, may be rendered on the issue of liability alone although there is a genuine issue as to the amount of damages.”

Appellants have found no authority directly supporting their position that a reviewing court may enter such a judgment. However, in view of the uniformity of decision that such a judgment is appropriate on the district court level, appellants submit that such relief comes within the four corners of the U. S. Code, Title 28, Section 2106, which provides:

“The Supreme Court or any other court of appellate jurisdiction may affirm, modify, vacate, set aside or reverse any judgment, decree, or order of a court lawfully brought before it for review, and may remand the cause and direct the entry of such appropriate judgment, decree, or order, or require such further proceedings to be had as may be just under the circumstances.”

CONCLUSION

In conclusion, appellants submit that the summary judgment entered by the District Court should be reversed. On the undisputed facts in this case, appellants submit that Generator Company is the equitable owner of the patents and patent rights which Heinz purchased from Owens in 1954; that Generator Company was the equitable owner of the injunctive judgment which Owens and Generator Company jointly destroyed in 1954; and that Heinz had such notice of Generator Company's rights as to become a constructive trustee for the benefit of Generator Company.

Appellants submit further that on the undisputed facts in this case the judgment of the District Court should be reversed with instructions to enter summary judgment for appellants and to conduct further proceedings to determine the amounts of damages.

Respectfully submitted,

CARL HOPPE

JAMES F. MITCHELL, JR.

*Attorneys for Plaintiffs-
Appellants.*

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

CARL HOPPE

Attorney

(Appendices Follow)

Appendix A

Chronological List of Exhibits in Transcript

Description	Reproduced
Agreement dated March 14, 1936 between Charles H. Owens and Frederick H. Wittmer	111-115
United States Letters Patent No. 2089412 issued August 10, 1937 to C. H. Owens for vinegar generator	525-532
Articles of Incorporation of Owens Generator Company, Inc. executed on March 10, 1938 by Charles H. Owens, Frederick Wittmer and William J. Tobin and certified on December 6, 1938	517-524
Agreement made March 11, 1938 between Owens Generator Company, Inc. and Charles H. Owens	75-78; also 116-119; also 355-358
Agreement dated March 11, 1938 between Charles H. Owens and Owens Generator Company, Inc.	120-128; also 359-362
Agreement dated March 11, 1938 between Charles H. Owens, Frederick Wittmer, and William Tobin	124-127; also 363-366
Assignment dated April, 1938 from Charles H. Owens and Frederick Wittmer trading as Owens-Wittmer Company to Owens Generator Company, Inc., assigning rights under written agreement between Frank Tea & Spice Company of Cincinnati, Ohio	128-130
Assignment dated April, 1938 from Charles H. Owens and Frederick Wittmer trading as Owens-Wittmer Company to Owens Generator Company, Inc., assigning rights under another written agreement with Frank Tea & Spice Company of Cincinnati	131-134
Letter dated November 17, 1938 from Owens Generator Company, Inc. C. H. O. President to H. J. Heinz Company	409
Letter dated November 23, 1938 from H. J. Heinz Company to Owens Generator Company, Inc. Attention: Mr. C. H. Owens, President	410

Description	Reproduced
United States Corporation Income and Excess Profits Tax Return of Owens Generator Co. filed March 15, 1939	253-256
Print dated May 2, 1939 entitled Generator Assembly. This print is the property of the Owens Generator Co. Inc. drawn by C. H. O.	538
Stipulation of Dismissal filed August 15, 1939 in the United States District Court for the Southern District of Ohio, Western Division in Civil Action No. 32—Standard Brands, Inc., plaintiff vs. The Frank Tea & Spice Co., and Jacob Frank, defendants	539-540
Letter dated October 11, 1939 from C. H. Owens to Robert O. Bentley, Jr.	367
Letter dated October 16, 1939 from R. O. B. to Daniel H. Kane, Esq.	541
Letter dated October 19, 1939 from Daniel H. Kane to Robert O. Bentley, Jr., Esq.	542
Letter dated October 21, 1939 from R. O. B. to Bayard H. Christy, Esq.	411
Letter dated December 1, 1939 from R. O. B. to H. R. Van Deventer, Esq.	412-415
United States Corporation Income and Excess Profits Tax Return of Owens Generator Company, Inc. filed March 15, 1940	295-298
Letter dated May 22, 1940 from Clarence O'Brien to Owens Generator Company, Inc.	560
Letter dated July 25, 1940 from Clarence A. O'Brien to Owens Generator Company, Inc.	561
Order dated August 28, 1940 from H. J. Heinz Co. to Owens Generator Company, Inc.	416
Promissory Note dated September 6, 1940 in the amount of \$5,000 executed by Owens Generator Company, Inc. by Charles H. Owens, President, to the Edgewater National Bank with guaranty of Charles H. Owens, Fred H. Wittmer, William Tobin and Elizabeth C. Revere	368-369; also 562-563

Description	Reproduced
Assignment dated September 6, 1940 from Owens Generator Company, Inc. to Edgewater National Bank, assigning the H. J. Heinz Company order	543-544
United States Corporation Income Declared Value Excess Profits and Defense Tax Return of Owens Generator Company filed March 15, 1940	299-302
Letter dated March 17, 1941 from Attorney General of State of New Jersey to Owens Generator Company, Inc. regarding non-payment of 1940 tax	545
United States Letters Patent 2236153 issued March 25, 1941 to C. H. Owens for vinegar generator	533-537
April 7, 1941 promissory note in the amount of \$5,000 executed by Owens Generator Co. to the Edgewater National Bank guaranteed by Charles H. Owens, Fred H. Wittmer, William Tobin and Elizabeth C. Revere	546-547
Order of Injunction dated November 25, 1941 issued by the Court of Chan. of the State of New Jersey on the Petition of the Attorney General	68-69
Letter dated December 2, 1941 from H. J. Heinz Company to the Edgewater National Bank	370
Letter dated December 4, 1941 from The Edgewater National Bank to H. J. Heinz Company	548-549
Letter dated December 26, 1941 from H. J. Heinz Company to the Edgewater National Bank	550-551
Letter dated January 30, 1942 from H. J. Heinz Company to The Edgewater National Bank	552-553
Letter dated February 2, 1942 from Milton T. Lasher to H. J. Heinz Company	554
Letter dated February 10, 1942 from H. J. Heinz Company to Milton T. Lasher and attached proposed Bill of Sale	555-557
Letter dated March 5, 1942 from Milton T. Lasher to Robert O. Bentley	558

Description	Reproduced
Letter dated March 5, 1942 from Milton T. Lasher to H. J. Heinz Company	559
Letter dated March 16, 1942 from Owens Generator Company by F. H. Wittmer, Vice-Pres. to H. J. Heinz Company	371-372; also 389-390
United States Corporation Income and Declared Value Excess Profits Tax Return filed March 16, 1942	303-306
Telegram dated July 10, 1942 from F. Wittmer to C. Owens	391
Letter dated July 13, 1942 from Robert O. Bentley, Jr. to Charles H. Owens	405-406
Letter dated December 7, 1942 from Charles Owens to Owens Generator Company, Inc.	70-72; also 373-375; also 564-566
Registered Return Receipt signed by E. C. Revere dated December 11, 1942	575
Letter dated December 31, 1942 from Milton T. Lasher to C. H. Owens	136
Letter dated January 18, 1943 from Morris Lowenthal to Milton T. Lasher	392-393
Letter dated April 15, 1943 from Milton T. Lasher to Morris Lowenthal	394-395
Letter dated May 4, 1943 from Morris Lowenthal to Milton T. Lasher	396-397
Letter dated May 18, 1943 from Milton T. Lasher to Morris Lowenthal	398-399
Letter dated May 25, 1943 from Morris Lowenthal to H. J. Heinz Company	417
Letter dated June 23, 1943 from Morris Lowenthal to Milton T. Lasher	400-401
Letter dated July 13, 1943 from Milton T. Lasher to Morris Lowenthal	402
Letter dated September 7, 1943 from Morris Lowenthal to H. J. Heinz Company	418

Description	Reproduced
Complaint for Declaratory and Other Relief filed November 16, 1943 in the Superior Court of the State of California in and for the County of Alameda	22-32
Letter dated November 17, 1943 from Morris Lowenthal to Milton T. Lasher	403; also 568
Letter dated November 26, 1943 from Milton T. Lasher to Morris Lowenthal	404
Letter dated November 26, 1943 from Milton T. Lasher to Mr. William Tobin and attached copy of letter of November 17, 1943	567-568
April 24, 1944—Answer of Defendants, H. J. Heinz Company, a corporation, and Glen F. Mason filed in the Alameda proceedings	228-249
Findings of Fact and Conclusions of Law filed December 18, 1944 in the Alameda proceedings	207-226
Judgment and Decree for Declaratory and Other Relief filed December 21, 1944 in the Alameda proceedings	33-34
Letter dated March 27, 1945 from Charles H. Owens to Generator Company, Inc.	73-74; also 137-138; also 569-570
Envelope from Charles H. Owens to Mr. Wm. Tobin	571
Letter dated March 26, 1946 from Robert O. Bentley, Jr. to Morris Lowenthal, Esq.	407
Letter dated April 15, 1946 from Morris Lowenthal to Robert O. Bentley, Jr.	408
Letter dated January 4, 1949 from Morris Permut to Charles H. Owens	135
Agreement made October 23, 1949 between Mr. and Mrs. Charles H. Owens, Jeff Foster and Morris Lowenthal	429-433
July 13, 1951 — Interlocutory Order entered in Alameda proceedings	35-61

Description	Reproduced
March 24, 1952—Final Order, Decree, and Award entered in Alameda County proceedings	62-67
Assignment from Charles H. Owens to H. J. Heinz Company with quit claim of Morris Lowenthal and Consent of Mary Irene Owens, dated May 15, 1954 assigning Patent 2236153	423-425
Assignment from Charles H. Owens to H. J. Heinz Company with quit claim of Morris Lowenthal and Consent of Mary Irene Owens, dated May 15, 1954 assigning Patent 2089412	426-428
Release and Satisfaction executed by Charles H. Owens and Mary Irene Owens his wife with quit claim of Morris Lowenthal	419-422
Motion to Dissolve Injunction and Modify Judgment filed May 17, 1954 in the Alameda proceedings	261-263
Order filed May 17, 1954 in Alameda proceedings	264-267
Order filed May 17, 1954 in Alameda proceedings	268-269
Envelope, picture and note mailed June 21, 1954	572-574
Assignments recorded June 24, 1954 in U. S. Patent Office	201-206
Receipt dated February 18, 1955 for \$5.00 from F. S. Gibson to William Tobin	271
Letter dated February 19, 1955 from William J. Tobin to Robert Bentley, Jr.	272
Letter dated February 28, 1955 from William Tobin to Robert Bentley, Jr.	273
Letter dated March 10, 1955 from William Tobin to William Leary, Judge	275
Letter dated March 21, 1955 from Robert O. Bentley, Jr. to William Tobin	274
Letter dated March 29, 1955 from William P. Leary to William Tobin	276
Letter dated April 4, 1955 from William Tobin to William P. Leary	277

Description	Reproduced
Letter dated May 28, 1955 from William Tobin to William P. Leary	278
Letter dated June 4, 1955 from William Tobin to William P. Leary	279
Letter dated November 12, 1955 from William Tobin to William P. Leary	280
Letter dated February 28, 1956 from William Tobin to William P. Leary	281
Letter dated July 1, 1956 from William Tobin to William P. Leary	282
Letter dated September 15, 1956 from William Tobin to William P. Leary	284
Letter dated February 25, 1957 from William Tobin to William P. Leary	285
Letter dated April 17, 1957 from William P. Leary to William Tobin	286-287
Letter from William Tobin to William P. Leary	288-289
Letter dated April 24, 1957 from William P. Leary to William Tobin	290
Receipt dated May 3, 1957 from F. S. Gibson to William J. Tobin for \$150.00	291

Appendix B**Abstracts of Cases on Notice of Prior Equities in Patent Properties**

Ambler v. Whipple (1874), 20 Wall. (87 U.S.) 546, involves a partnership between an inventor Ambler and a financier Whipple. Whipple was to have full control of the venture and the profits were to be divided one-half to each. The partners broke up and Whipple introduced Dickerson to the place where the experiments had been made and machinery had been used. Dickerson then applied for a patent in his own name embodying a colorable variation of the Ambler invention and both he and Whipple became partners and successfully introduced the invention on the market. Ambler brought an action for an accounting. At page 559, the court said :

“For all that has come to Whipple’s hand, for all that is included in the patents to him and Dickerson, he is, under the terms of the sixth article of the agreement, a trustee for Ambler to the extent of one-half, and must be so charged and held to account in this proceeding.

“As to Dickerson, while he is not a trustee under that article, we are of opinion that he has so far knowingly connected himself with and aided in the fraud on Ambler that he cannot resist Ambler’s right to an undivided half of both the patents to Dickerson and Whipple, and of the profits made or to be made out of them. What rights or remedies he may have against Whipple we do not decide.

“The result of these views is that the decree of the Supreme Court of the District must be reversed ; that a decree must be entered in that court declaring Whipple and Dickerson to hold in trust for the benefit of Ambler to the extent of one-half the two patents issued to them, mentioned in the pleadings as 95,665 and 102,662 ; that

an accounting be had as to the profits realized by them, or either of them, from the use or sale, or otherwise, arising from said patents, * * *".

The case of *Auburn Button Co. v. Sylvester* (1893) 72 Hun. 498, 25 N.Y.S. 237, affirmed without opinion (1895) 147 N.Y. 714, 42 N.E. 721, involves a button patent which was issued to two Woodruff brothers. In 1883 the Woodruff brothers assigned the patent to Auburn Button Co., but the assignment was not recorded as provided by the statute. In April, 1891 the Woodruff brothers assigned the same patent to defendant Sylvester. Sylvester claimed to be a bona fide purchaser for value. However, he knew that Auburn Button Co. had used the patent in dispute and this he learned while he had been in position of superintendent for the Button Co. There was some evidence that he had actual knowledge of the Button Company's interest in the patent. At page 239 the court said:

"The defendant had the position of superintendent for the plaintiff while he was in its service, and assisted in working the patent machines. It was quite reasonable for him to suppose that the company was using it pursuant to some right or title derived from Woodruff Bros., its predecessor in the business; and it appears by the remark made by him when he saw the sheriff's notice of sale that he was apprehensive that the plaintiff had title to the patent, or some interest in it. The answer which he says was given by J. H. Woodruff to the inquiry as to who then owned the patent—that he did not know—would seem to have indicated that it was not then owned by Woodruff Bros., for if it had been, he could not well have said he did not know. The answer would reasonably seem to have led to the further inquiry whether they had assigned it, and to whom, if the inquirer was faithfully in pursuit of information upon the subject. The notice as to the facts

which put the defendant upon inquiry was that Woodruff Bros. had assigned the patent, and yet it seems that the defendant omitted to make any inquiry to ascertain what the fact was in that respect. The doctrine applicable to the subject is such that when there is some title or interest in conflict with that which a person is proceeding to purchase, and he has knowledge of facts sufficient to put him upon inquiry as to the existence of such title or interest, he is chargeable with notice of it. In such case the presumption is either that he has made the inquiry, and ascertained such prior right, or that he has been guilty of such negligence as to deny to him the character of a bona fide purchaser. The question is in some sense one of good faith on his part. He may repel the presumption by showing that he has diligently and duly pursued the inquiry, and been unable to ascertain that any such title or interest in conflict with that which he is seeking to obtain exists. *Williamson v. Brown*, 15 N.Y. 354; *Ellis v. Horrman*, 90 N.Y. 466. This the defendant failed to give evidence tending to prove. The fact that Woodruff Bros. had several years before assigned the patent to the plaintiff was that in respect to which the defendant was, by the circumstances within his knowledge, put upon inquiry; and it would seem that, if he had in good faith been seeking information in that respect, he would have made an inquiry necessarily calling for it as to that fact. His omission to do so seems somewhat significant, and, to say the least, was such a want of reasonable diligence as to permit the presumption to remain effectual against him, and to require the conclusion that he was charged with notice of such prior assignment."

Continental Windmill Co. v. Empire Windmill Co. et al. (N.D. N.Y. 1871) 6 Fed. Case page 367, Case No. 3142. In that case Brown was the patentee of the patent in suit. He was employed by Empire from 1866 to 1868 under a written

agreement which required assignment of his inventions to Empire. The invention was made while he was employed at Empire. The patent was applied for while he was employed at Empire but issued after he left Empire's employment. Brown then assigned three-quarters of the patent to certain parties who then united with him in an assignment to the plaintiff, a corporation in which Brown was a director and the manager. Continental then brought suit against Empire for infringement and defendant urged equitable title to the patent. At page 368 the court said:

"It is claimed, that, whatever may be the equitable title of the defendant, the legal title is not in the defendant, and, therefore, this defense cannot prevail; and that the defendant should file a bill setting up such equitable title, and compel a transfer of the patent. This suggestion overlooks the fact, that this suit is brought in a court of equity, where, in matters within its jurisdiction, an equitable title is as good as a legal title, as to all parties affected by such equity. It would be quite absurd to say, in a court of equity, that a party holding an equitable title could be ousted of his equitable rights by the holder of the legal title, who, in such case, stands, in a court of equity, as trustee for the use and benefit of the party beneficially interested.

"I do not think the plaintiff stands in any better position than Brown himself, in respect to a claim to restrain the defendant, or recover for its use of the improvements. Brown is himself the plaintiff's director and manager, and, in its dealing with this patent, it has notice, through him, as such. Therefore, the absence of any record of the defendant's agreement with Brown, gives the plaintiff no advantage. It has been repeatedly held, that an agreement which operates as a transfer of a patent is good as against the patentee and those who purchase with notice, though not recorded."

Daily v. Universal Oil Products Co. (N.D. Ill. E.D. 1947) 76 F. Supp. 349, involves a situation in which Jesse A. Dubbs was the president, a director, and the majority stockholder of Sunset Oil Refining Company, a defunct corporation. Dubbs transferred certain patents to Universal. The record title to the patents stood in his name, but there was an unrecorded exclusive license granted to Sunset, its successors or assigns which "was to continue so long as the company, *its successors or assigns*, should in good faith carry on the process of such treating and refining of petroleum oils under said letters patents." (76 F. Supp. 353.) Thirty years after the transfer an heir of a minority stockholder of the defunct corporation learned of the transfer and brought an action against the assignee for a pro-rata share of the purchase price paid for the patent properties. The assignee defended in part on the ground that it was a bona fide purchaser for value of the properties in question. At page 358 the court turned to this issue:

"The court also is of the opinion that the circumstances as they then existed in respect of Sunset Oil Refining Company and the patents and patent applications would have provided notice to anyone negotiating for the purchase of the patents that the company owned an interest therein."

The court then noted that the purchase price for the transfer comprised shares of stock in a new company made out to "Jesse A. Dubbs, trustee" (Page 360). Defendants asserted that both Jesse A. Dubbs and C. P. Dubbs asserted that the trust was for the benefit of C. P. Dubbs, and that the agents for the transferee had no knowledge actually or constructive of the interest of Sunset. At page 362 the court pointed to the following:

"The matter of the ownership of the patents being of paramount concern to purchasers thereof, when

Leszynsky and Belknap discussed the purchase of the patents with Jesse A. Dubbs in Los Angeles, they were confronted with many vital, contemporaneous facts: they met Jesse A. Dubbs in the office of the Sunset Oil Refining Company with the name of the company plainly printed on the door to the office; the name of the company was plainly printed on the safe in the office where the patent file was kept; Jesse A. Dubbs, from whom they sought to buy the patents, was president and the alter ego of Sunset Oil Refining Company, with his name and title plainly printed beneath the company's name on the office door. Sunset Oil Refining Company had possession of the patents and patent applications; the water separating process in the treatment of oil under patent No. 890,762, had been used commercially under license from Sunset, in the plant erected by Sunset on the Rice Ranch Oil Company lease, and the purchasers were informed of that; a new plant had been erected by Sunset at Ostend and the continuous water separating process had been used there commercially by Sunset and the purchasers were informed of it; this process was then covered by patent application No. 529,049 and later was covered by patent No. 1,123,502.

"During the conversations which took place before the patents were purchased, a routine inquiry into the books of Sunset Oil Refining Company would have shown that the inventions then the subject of the discussions were carried on the company's books as an asset of the value of \$100,000. The same inspection would have shown the use of the inventions by Sunset under agreements with Dubbs. It all evidenced a proprietary interest of Sunset Oil Refining Company in the patents."

Further facts revealed that files available to the transferee disclosed that several of the patented processes had been developed and used in the refining plants of Sunset

and that Jesse A. Dubbs was the President of the Company all the time and that Carbon P. Dubbs had been active in the development work of the Company. At page 362 the court said:

“The legal effect of the use and possession of the patents by Sunset Oil Refining Company, of which Leszynsky and Belknap had actual knowledge, is stated in the case of *Prime et al. v. Brandon Manufacturing Co.*, C.C.Vt. 1879, 19 Fed. Cas. page 1324, No. 11,421.”

At page 363 the court turned to defendants' insistence “that Belknap made reasonable inquiry in regard to the ownership of the patents by way of information that was given to him by J. A. Dubbs, C. P. Dubbs, and L. A. Dubbs.” At page 363 the court said:

“* * * The Court believes that the Dubbs family was the source least likely to give accurate information concerning ownership of the patents. * * * The Court believes that Belknap and defendants should have inquired into the books and records of Sunset Oil Refining Company and then of Mary Belle Hardison. Such inquiry would have settled once and for all the question of whether anyone other than Jesse A. Dubbs claimed an interest in the ownership of the patents.”

The court then discussed the question of record title at page 363 as follows:

“* * * They contend, first, that Dubbs was the owner of the record title to the patents. But under the authorities cited, the circumstances which surrounded the purchase of the patents dispelled the force of the record title. Second, that Dubbs represented to them that he owned the patents. * * * However, such representations by Dubbs would not permit the purchasers to ignore other evidence that pointed to and was consistent with the equitable interest of Sunset.”

The court relied upon general constructive trust law, and required the assignee to pay the minority stockholders of the defunct corporation a pro-rata share of the purchase price for the patents in the ratio of 150 to 750, the minority stockholder having owned 150 shares of the stock of the defunct corporation and the majority stockholder having owned 750 shares thereof. The court particularly noted, page 369, that Universal "participated in the destruction of a trust of which it had actual knowledge and in the conversion of the subject matter of the trust."

In *Electric Storage Battery Co. v. Gould Storage B. Co.* (W.D. N.Y. 1912) 197 Fed. 745, the question arose as to whether knowledge that a corporation had an interest in one patent of an inventor was constructive notice that it also had an interest in another patent of the same inventor. At page 749 the court held that it did in the following language:

"In view of the satisfactory evidence establishing Lloyd's knowledge of the prior Madden invention assigned to Van Winkle and Chamberlain, it necessarily follows that the complainant derived from Madden no greater title than he had at the time of the consummation of the transaction. Complainant, from November 19, 1895, when the assignment to Van Winkle and Chamberlain was recorded, must be deemed to have had constructive notice thereof, and was bound to take the prior invention into consideration, and could not supinely rely on Madden's representations that he had merely assigned the specific machine reserving to himself that which was basic. *Jonathan Mills Mfg. Co. v. Whitehurst et al.*, 72 Fed. 496, 19 C.C.A. 130; *Cordova v. Hood*, 17 Wall. 1, 21 L.Ed. 587; *National Cash Register Co. v. New Columbus Watch Co.*, 129 Fed. 114, 63 C.C.A. 616. He may have supposed that he retained the broad invention, and had not by his prior contract divested himself of it; but it clearly was the duty of

the complainant to make further inquiries. Walker on Patents (4th Ed.) 246; Robinson on Patents, vol. 2, §§ 775, 776.”

In *Hamilton v. Kingsbury*, (N.D. N.Y. 1880) 4 Fed. 428, the question arose as to whether the purchaser of a patent purchased with notice of three instruments affecting the title all executed in 1866, one of which was recorded and the other two of which were not recorded. At page 431 the court said:

“* * * The recording of the instrument of August 27, 1866, which was recorded, was not notice to the defendants that they could safely rely on the record as showing the whole transaction between the parties to the instrument in respect to its subject-matter. The three instruments were all of them valid without recording, as against the defendants, although *bona fide* purchasers without actual notice. * * *”

This was because subsequent conveyances conveyed only the “right, title and interest” of the assignors in the invention. This is brought out at page 435 as follows:

“The conveyance of April 29, 1868, from Lombard & Thompson, conveys only their ‘right, title, and interest’ in the invention. The conveyance from Reese conveys only his ‘right, title, and interest’ in the invention. The conveyance from Strong & Woodbury conveys only their ‘right, title and interest.’ No recitals in those instruments caused them to operate to convey to the defendants anything more than the right, title and interest of Lombard & Thompson, whatever it was, on the twenty-ninth of April 1868. It is true that the conveyance of April 29, 1868, and the subsequent conveyances, recite that what was vested in Lombard & Thompson, by the assignment to them, was ‘the right for the state of New York.’ But Milton A. Hamilton was no party to those conveyances. He did not deal

with any one but Lombard & Thompson. Even if they be regarded as acting as his agents in subsequently conveying, they conveyed only their 'right, title and interest.' What that was has been defined. The parties taking from and under them were, by the form of the conveyance from them, referred to Hamilton to ascertain what, in fact, the 'right, title, and interest' of Lombard & Thompson was. What it was depended on the three instruments of August 27, 1866, taken together, and an inquiry of Hamilton would have disclosed that fact. There was enough, in the terms 'right, title, and interest,' in the assignment from Lombard & Thompson, to put any purchaser from them, immediate or subsequent, on inquiry; and to charge him with notice of what such inquiry, if made of their grantor, would have disclosed. While by the recorded assignment of August 27, 1866, the right to make may appear to have been invested in Lombard & Thompson, yet they did not undertake to convey what that assignment appeared to convey, but only their 'right, title, and interest' as it in fact existed. The case, therefore, does not fall within the principle of the two cases cited for the defendants. In this case no one made any inquiry of any person but Lombard & Thompson. Neither Hamilton nor the plaintiff are bound by any suppression of the truth by them, or any failure on their part to disclose all three of the instruments, so long as they assumed to convey only their 'right, title, and interest.'"

In *Jonathan Mills Manuf'g Co. v. Whitehurst*, (6th Cir. 1896) 72 Fed. 496, the question arose as to whether the plaintiff had sufficient title in a patent to bring suit on it or whether the patent belonged to Smith Middlings Purifier Company, a defunct corporation. At page 501 the court stated:

"We concur with the circuit court in the view that, by the recitals in the assignment of Jonathan Mills to the complainant, the Jonathan Mills Manufacturing

Company, the latter was put upon inquiry as to the interest of the Smith Middlings Purifier Company and must be charged with notice of every fact with reference to the company's interest in the patent which diligent and honest inquiry would have developed. It is well settled that, when a purchaser cannot make out his title but through a conveyance which leads to a fact, he will be affected with notice of that fact. When a defect in title is brought to his knowledge, no inconvenience will excuse him from the utmost scrutiny. He is a voluntary purchaser, and, having notice of a fact which casts doubt upon the validity of his title, the rights of innocent persons are not to be prejudiced through his negligence. *Brush v. Ware*, 15 Pet. 93, 112, 114; *Oliver v. Piatt*, 3 How. 333, 410; *Cordova v. Hood*, 17 Wall. 1. As said by Mr. Justice Strong, speaking for the supreme court in the last-named case (page 8):

‘Wherever inquiry is a duty, the party bound to make it is affected with knowledge of all which he would have discovered had he performed the duty. Means of knowledge, with the duty of using them, are, in equity, equivalent to knowledge itself.’

“The chain of title disclosed by the patent office records, from Jonathan Mills, the original patentee, to George T. Smith, indicated an outstanding equity of some kind in Mills, and an assignment from Mills to the complainant was necessary to clear any title which it might acquire from Smith. The Mills assignment was, therefore, in the chain by which complainant must assert ownership, and it was charged with notice of the statement therein that the patent was supposed to be owned by the Smith Purifying Company. Indeed, his assignment was made directly to complainant, and authorized it to procure the patent from the company or its assigns. The company, therefore, necessarily, had actual as well as constructive notice of its contents. Now, it is true that the company referred to by Smith was the Smith Purifying Com-

pany, while the company which really owned the patent was the George T. Smith Middlings Purifier Company. We cannot suppose, however, that, in the trade, any mistake could have arisen from this difference. Complainant has not called its officers to testify as to what knowledge they had of the existence or nonexistence of a company by either name, or what efforts they made to identify the Smith Purifying Company with an existing company. Even Wardlow, complainant's agent in the purchase, has not been called to state what his knowledge or inquiry was in respect to the matter, although he is the person upon whom complainant relies as the innocent purchaser."

The court then pointed to the fact that the plaintiff relied upon an affidavit of George T. Smith when it purchased the patent. At page 502 the court said:

* * *

"Inquiry of Smith, from whom the purchase was to be made, certainly did not fill the measure of proper diligence; for he was necessarily interested to establish a clear title in himself. If the Smith Company had any interest in the patent, as Mills suggested, then it was apparent that George T. Smith, who held the legal title, was trustee for the company. It is well established that one who has reason to believe that another is offering property for sale, which he holds either as trustee or agent for a third person, cannot become a bona fide purchaser of the property for value by reliance on the statements of the suspected trustee or agent, either as to his authority, or as to his beneficial ownership of the thing sold. In such a case, inquiry must be made of some one other than the agent or trustee,—of some one who will have a motive to tell the truth, in the interest of the cestui que trust or principal. *Trust Co. v. Boynton* (decided by this court at the present term) 71 Fed. 797. If, then, the purifier company was the equitable owner of the patent in

controversy, we are fully justified in presuming, from the circumstances, that Wardlow and the complainant might easily have found it out from the receivers of the company, who were then in charge of its affairs and assets”.

The court next pointed out that on the merits of the controversy an earlier equitable judgment was binding upon the issues. There seemed to be some ambiguity in the description of the subject matter of the judgment in that it did not make clear whether the equitable judgment related to patents which Smith himself might obtain as an inventor and those which he might obtain by assignment. At page 504 the court said:

“* * * In support of the decree, and the court’s jurisdiction, an ambiguous description of the subject-matter should, it would seem, receive that construction which will sustain them both.”

In *Kittle Mfg. Co. v. Davis* (1935), 8 Cal. App. 2d 504, Davis, an inventor, granted Kittle the exclusive license to manufacture and sell certain camp beds. Four years later Davis organized Champion Folding Bed Company and in cooperation with one Adkins filed a conflicting application which was assigned to Champion. Kittle brought an action against Davis and Adkins for the profits alleged to have been made by them and damages. Kittle lost its case against Davis because it neglected to file a counterclaim in earlier litigation. Kittle also lost its case against Adkins in the trial court, but on appeal it was reversed. At page 515 the court found that Adkins could not take advantage of the prior bar because he was not a party to the first suit. The court then turned to the question of notice and stated, page 516:

“* * * Although there is no direct evidence that Adkins knew of the terms of the Davis-Kittle con-

tracts, there is circumstantial evidence strongly tending to establish such knowledge. Adkins was president of a company in Chicago that had been handling the beds manufactured by Kittle. He knew the latter was about to bring out a light-weight bed called the Davis Light-Weight Bed, and that Davis claimed to be the inventor of that bed as well as of the first one. He loaned Davis \$500.00 with which to develop a bed to compete with the new bed made by Kittle and agreed to apply for and take the patent in his name and to assign it to the nominee of Davis. The evidence amply shows that Davis was the inventor and that he and Adkins discussed some changes in the bed they were developing which might prevent infringement of the Davis patents. The bed was sold in violation of the rights of Kittle and the court found Kittle to have been damaged thereby, without finding the amount of the damage. The court might reasonably have concluded that Adkins acted fraudulently and for the purpose of profiting thereby, in thus assisting Davis to violate his contract. The evidence, we think, would have warranted findings sufficient to support a judgment for damages against Adkins."

In *L. A. Young Spring & Wire Corporation v. Falls* (1943) 307 Mich. 69, 11 N.W. 2d 329, several persons who had formerly held high salaried executive positions of trust and confidence with the plaintiff established a competing business upon an improvement in spring construction which had been developed in the Oakland, California plant of the plaintiff. They caused to be filed a patent application in the name of one Burch as trustee. They then proceeded to appropriate the patent to their own use to the detriment of the plaintiff. They also caused to be destroyed a bona fide application for patent owned by the plaintiff and filed in the name of the true inventor. Fred Burch was

held liable to the same extent as the original fiduciaries. At page 343 the court said:

“* * * Knowing that he was dealing with trusted executives of plaintiff corporation and General Motors, and knowing or being presumed to know the duties which they owed their respective employers and their breach of such duties, Fred Burch was a willing and active party to the conspiracy. As assignee of her deceased husband’s 10 per cent. interest in the patents and as successor trustee, defendant Elizabeth Burch personally benefited and actively participated in the wrongdoings of the other individual defendants. As successor trustee she received and distributed royalties in the amount of \$102,980.23 to herself and other individual defendants. Because of their breaches of duty and their conspiracy and wrongdoings, defendant executives, Elizabeth Burch, and Albert Ruppert whose estate is represented by defendant Mabel Ruppert, administratrix, became jointly and severally liable to plaintiff and General Motors for all profits which they received from the Burch patents. In 3 Scott on Trust, p. 2429, § 506, it is stated: ‘Liabilities of third persons. Where a person in a fiduciary relation to another violates his duty as fiduciary, a third person who participates in the violation of duty is liable to the beneficiary. If the third person makes a profit through such participation, he is chargeable as constructive trustee of the profit so made.’

“In the case of *Irving Trust Co. v. Deutsch*, supra, 73 F.2d page 125, the Circuit Court of Appeals said: ‘One who knowingly joins a fiduciary in an enterprise where the personal interest of the latter is or may be antagonistic to his trust becomes jointly and severally liable with him for the profits of the enterprise.’ See, also, *Jackson v. Smith*, 254 U.S. 586, 41 S. Ct. 200, 65 L.Ed. 418; *Emery v. Parrott*, 107 Mass. 95; 15 C.J.S., Conspiracy, p. 1028, § 18; 11 Am. Jur. p. 578, § 45.”

In *National Cash Register Co. v. New Columbus Watch Co.* (6th Cir. 1904) 129 Fed. 114, National claimed title to the Neer patent and New Columbus urged that the patent was owned equitably by Kelly and Reynolds. At page 116 the court said:

“That the complainant did not have technical notice of the equitable interest of Kelly and Reynolds in this invention may also be conceded. The real contention is that it had information of facts which put the company upon inquiry, and that they are therefore chargeable with knowledge of all the facts which inquiry would have disclosed. *Cordova v. Hood*, 17 Wall. 8, 21 L. Ed. 587; *Jonathan Mills Co. v. Whitehurst*, 72 Fed. 496, 19 C.C.A. 130.”

The court then discussed the facts and concluded page 123:

“The court below, after an exhaustive examination of all the facts and circumstances of the case, reached the conclusion that the facts known to the complainant company at the time of its purchase were such as to put it upon inquiry. The facts which the complainant must be taken to have known pointed plainly to the probable existence of a right or title in conflict with that which they were about to buy. It became complainant’s duty, therefore, to make inquiry as to the existence and extent of this probable outstanding equitable, but prior, right; and an inquiry of Neer only was not a reasonable compliance with this duty. The failure to make reasonable inquiry under such circumstances convicts complainant of a degree of negligence inconsistent with the claim to be a bona fide purchaser without notice. The knowledge which its representative in this transaction had did not consist of vague rumors as to the possible rights of another. It was knowledge that tended strongly to show that Kelly and Reynolds were interested in the inven-

tion he was about to buy, and was not materially weakened by any subsequent facts known to him at the time he was called upon to act. It may be that Mr. Patterson did not have at the time any purpose to deliberately shut his eyes to the facts which inquiry might disclose, for that would amount to mala fides or fraud, and we do not attribute any evil purpose to him. The price he was asked to pay was a small one for a great concern, such as that he represented. When asked about the extent of his examination of the application before buying, he said:

‘I may or may not have examined the file wrapper, and cannot state positively upon this point. If the case was an important one, I should probably have an opinion submitted, or read it over myself. In this case I am under the impression that, the amount involved being so small, that I told Mr. Macauley he might buy the patent if the amount did not exceed \$200. That is about all I remember about it.’

“Under such circumstances, he may well say, as he does, that he at the time had no knowledge that any one beside Mr. Neer owned or claimed any interest in the invention. But he did have information which made it his duty to inquire whether others did not have an interest in this inchoate property, and this he doubtless would have done but for the comparative insignificance of the matter, which induced a very negligent method of action, which justly deprives his corporation of its claim to be a bona fide purchaser without notice. Evidence of a fraudulent purpose or conduct amounting to moral turpitude is not necessary to deprive a purchaser of a legal title of the advantages of his position.

“The English cases for a time seemed to tend toward a rule requiring evidence indicating a deliberate shutting of the eyes to avoid light, and amounting to what some of the judges styled fraud. 2 Pom. Eq. § 606, and notes, and cases there cited. But the latest announce-

ment seems to repudiate this extreme view. *Oliver v. Hinton*, 2 L.R. Ch. D. 1889, 264. The test of the American courts has not been so extreme. The inquiry has generally been whether the facts known were such as to put a reasonably prudent man upon his guard, and whether an inquiry has been prosecuted, with reasonable diligence. 2 Pom. Eq. § 606, and notes. * * *

In *New Marshall Co. v. Marshall Engine Co.* (1912), 223 U.S. 473, the court stated, page 478, that "The controlling fact for determination here is whether patent 725,349 belongs to the Marshall Engine Company, of New Jersey, or to the New Marshall Engine Company of Massachusetts." Marshall assigned an earlier patent 342,802, and "all improvements thereon and renewals of the same" (p. 474) to the New Jersey corporation but neglected to have the assignment recorded within the time required by law. Thereafter, his patent 725,349 issued and the New Jersey corporation manufactured 9 or 10 engines embodying the patented improvement. No formal assignment of this patent was made. On June 13, 1905 a receiver was appointed for the New Jersey corporation. Immediately thereafter Marshall organized the New Marshall Co. under the laws of Massachusetts and assigned to it patent 725,349. The Court found that "The New Marshall Engine Company took with notice of the complainant's right". (p. 475). The New Jersey corporation filed a bill in equity asserting its title and asking both Marshall and the Massachusetts company to assign the patent and prayed for an injunction against both of them from manufacturing or selling machines covered by the patent. The Supreme Court held this relief to be appropriate. At page 479, it said:

"Marshall had, however, in violation of his contract, previously assigned patent 725,349 to the New Marshall Engine Company, which took with notice of the prior

transfer. This Company, therefore, held the legal title as trustee for the complainant. * * *

In *Prime v. Brandon Manuf'g Co.* (D. Vermont, 1879) 19 Fed. Cas. Page 1324, Case No. 11,421, plaintiffs and defendants had a dispute as to who had superior rights in certain patents relating to scales. Prime et al. claimed by virtue of certain formally executed documents. Brandon claimed it had superior rights. The question of bona fide purchaser arose. At page 1325 the court said:

* * * In each of the deeds from Prime to Meacham and to Luce, the deed from Strong to Prime is referred to as the source of Prime's title, and is described as 'a certain conveyance to David W. Prime, of Brandon, Vt., in and to certain patents and royalties for "improvements in weighing scales," which are now in use by "The Brandon Manufacturing Company, of Brandon, Vt.," and are known as the Strong and Ross patents.' The inventions were then, and for a long time had been, in full and open use by that company, and this reference to that use, in the very deeds to Meacham and Luce, was not only constructive notice to them of the fact of such use, but was express information of it, if they did not have that information otherwise. *Cuyler v. Bradt*, 2 Caines, Cas. 326. And this reference in the deed of Prime to the one to him, as being of patents so in use, shows, clearly, that he took his deed with full knowledge of that use; and the conveyances were so near together in point of time, that he must have had the fact of such use in his mind at the time of both buying and selling. This use by the defendant was possession of the monopoly, as far as that use extended, at least, which is as far as this controversy, embraced in the original bill, extends; and this possession, when actually known, was constructive notice of the claim of right under which the possession and use were had, the same as the possession of land

is notice to a purchaser of the legal title of any equitable right which the possessor may have. 1 Story, Eq. Jur. §400; *Pinney v. Fellows*, 15 Vt. 525. Had they inquired by what right the use of these patented inventions was had, they would probably have learned the truth about it, and must now stand as if they had enquired and learned it, which leaves them with precisely the same rights as Strong, their grantor, had, which were the same that he and Ross had."

The court also went on to show that the assignee of Howe had interest in some of the patents. As to this the court said, page 1326:

"The right to the unexpired term of the patent of 1862 stands upon different footing from those to the extensions. Strong, Ross and Howe were joint inventors of that invention, and assigned to Howe, while an agreement between them relating to the use of all these and other patented inventions, dated September 1st, 1859, was in force, by the terms of which, if Howe or his representatives should elect not to continue the business of making scales, the rights of Howe, acquired by that agreement, would revert to Strong and Ross. Howe transferred the business of making scales to the Howe Scale Co. He and that company both got into bankruptcy; he has since died, and his representatives have not continued the business at all. It is argued, that this patent reverted, under the provisions of that contract. But on the 1st of March, 1864, Strong and Ross made another conveyance of the patents which have been extended, and several others, to Howe, without mentioning the one of May 20th, 1862, and expressly rescinding the agreement of September 1st, 1859. This left the title to this patent in Howe, with no provision in force anywhere for depriving him of it. And that it was intended to remain there is apparent from the transactions. * * *"

As to this also the court noted, page 1328:

“* * * The apparent legal title to the extensions came to Strong and Ross; but the legal title to a patent may be in one person, and the equitable right to it in another; and this applies to extensions as well as to original patents, as fully appears from the principles and authorities before referred to. *Hartshorn v. Day*, 19 How. [60 U.S.] 211; *Newell v. West* [Case No. 10, 150]. * * *”

At page 1329 the court pointed out how the defendant's business was based upon the patents as follows:

“* * * These inventions were the foundation of the defendant's business, and large outlays were made in establishing it, on the expectation of having them; and it is not probable that the defendant would have permitted them to be granted without opposition, for Strong and Ross to have them, and much less, that the expenses of obtaining them would have been paid, to secure them to Strong and Ross. They cannot, in good faith, now claim the extensions, and, in equity, their claim cannot properly be enforced. Ross, in fact, never has claimed them, but has merely quitclaimed his rights, if any, to Strong.”

In *Stanton Manuf'g Co. v. MacFarland* (N.J. Ct. of Chan. 1895) 30 Atl. 1058, affirmed in *MacFarland et al v. Stanton Manufacturing Co.* (1896) 53 N.J. Eq. 649, 33 Atl. 962, MacFarland purchased from Stanton a certain patent for making soap which was an improvement on an earlier patent assigned to plaintiff. At page 1058 the court said:

“* * * This last patent, Stanton assigned to the defendant MacFarland. The assignment of the original patent to the Stanton Manufacturing Company was not recorded at the time of the assignment of the last patent to McFarland. But the complainant claims that McFarland had notice of the assignment to the com-

pany, or of such facts as deprive him of the rights of a bona fide purchaser. This statement involves the principal point in controversy."

The court thought that McFarland had actual notice because of the intimate relationship between McFarland and Stanton. However, the court went on to state that McFarland had visited the company. At page 1059 the court said:

"* * * This company was styled 'The Stanton Manufacturing Company.' I think no one would believe him for an instant if he were to say that he did not know that Stanton, his friend, was the patentee, nor if he were to say that he did not know that the company who owned this plant and who was manufacturing this soap was not the Stanton Manufacturing Company, of which his friend was a member, nor if he should say that the other members of this company had engaged in this enterprise without in some way securing an interest in the patent which protected them in their investment, and in the enjoyment of the manufactured product. His visit to the plant with a son of Stanton, and the other circumstances above narrated, together with what follows, I think, show that he had notice of such facts as to put him on his guard, and to bring this case fully within that of *Auburn Button Co. v. Silvester*, 79 Hun, 611, 29 N.Y. Supp. 1140."

Stanton had told McFarland that he had been mistreated by the company and that McFarland had fully looked into the matter and had been advised that the patent was all right. The court concluded, page 1059:

"* * * I cannot avoid deciding that McFarland had such clear, full, and direct information of circumstances, facts, and existing conditions as to put him upon inquiry, and that he could not neglect such inquiry, and claim to be a purchaser in good faith."

On Appeal the Court of Appeals and Errors said, page 962:

“* * * The assignment to the Company was not recorded when McFarland took the assignment in 1893; but I think that the testimony of Woodruff and of Fels, and the testimony of McFarland himself, shows that he had notice of the previous assignment to the company. The conclusion of the vice chancellor on this point is supported by the evidence. * * *”

Thompson v. Automatic Fire Protection Co. (2nd Cir. 1914) 211 Fed. 120, involves an agreement under which Shipman was to perfect certain inventions which Thompson had already started and should assign to the latter whatever he might discover or invent along the line of fire protection devices. The defendant claimed to be a bona fide purchaser for value of the improvements made by Shipman. At page 121 the court said:

“[2] The crux of the case is whether defendants had notice of the arrangement with Thompson sufficient to put them on inquiry, before they took assignment from Shipman. The evidence is not very strong, but defendants themselves admit that Shipman told them Thompson had forced him to assign other patents and that he wanted to keep this patent away from Thompson. Also that he felt under some obligation to offer it to Thompson.

“It seems to us that a business man of reasonable care and prudence would, under these circumstances, before putting his money into an enterprise, have gone to Thompson and asked him if he was making any claim to this invention of Shipman and, if he said he was, would have asked him what was the nature of his claim, so that the inquirer might advise himself whether he could safely purchase.”

No. 17511

In the
United States Court of Appeals
For the Ninth Circuit

OWENS GENERATOR COMPANY, INC., a de-
funct New Jersey corporation, et al.,

Plaintiffs-Appellants,

vs.

H. J. HEINZ COMPANY, a Pennsylvania cor-
poration,

Defendant-Appellee.

Brief of Appellee H. J. Heinz Company

MOSES LASKY
RICHARD HAAS
BROBECK, PHLEGER & HARRISON

111 Sutter Street
San Francisco 4, California

*Attorneys for Appellee
H. J. Heinz Company*

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In the

United States Court of Appeals

For the Ninth Circuit

OWENS GENERATOR COMPANY, INC., a de-
funct New Jersey corporation, et al.,
Plaintiffs-Appellants,

vs.

H. J. HEINZ COMPANY, a Pennsylvania cor-
poration,
Defendant-Appellee.

Brief of Appellee H. J. Heinz Company

Appellants' brief is a mixture of candor and obscurity. It is candid because, appealing from a judgment of dismissal for defendant H. J. Heinz Company (hereafter called Heinz) entered on motion for summary judgment, appellants "concede that there is no genuine issue as to any material fact" (Br. 5).¹

It is obscure because appellants describe their claim against Heinz as an effort to "impress a constructive trust upon converted assets" of a defunct New Jersey corporation (Br. 1), asserting that

1. References to Appellants' Opening Brief will be by the designation "Br."

All emphasis in the present brief has been added unless otherwise noted.

Heinz is a "constructive trustee * * * for all losses its conduct may have occasioned [the defunct company] and for all profits which it made by virtue of its intermeddling with the properties of [that company]" (Br. 30). But there is no *res* on which to impress a trust, nothing was converted, there were neither losses, damages nor profits.

For the sake of clarity we therefore present our own statement of the case.

STATEMENT OF THE CASE

A. The proceedings.

This case starts in an intramural quarrel among Tobin, Wittmer, and Charles H. Owens, former associates of Owens Generator Company, Inc., hereafter called the "Generator Company". Tobin² and Wittmer, using the name of the Generator Company, as plaintiffs sued Charles H. Owens (hereafter called Owens) and Morris Lowenthal (formerly attorney for the Generator Company and for Owens in litigation against Heinz) as defendants. Doubtless because Heinz has leviable assets and can respond to a judgment, plaintiffs dragged Heinz into the case as a defendant.

The complaint was filed July 18, 1957 (R. 1). Heinz promptly submitted to plaintiffs extensive requests for admissions of fact and documents (R. 14-72), followed by requests for admissions submitted by Lowenthal and Owens (R. 88, et seq.). The requests were not answered for 10 months (R. 79, 139, et seq.). Following denial by Judge Wollenberg of a motion to dismiss in December 1958,³ Heinz promptly filed its answer to the complaint (R. 145), and in March 1959 Heinz called up the case for a pre-trial con-

2. While Tobin later died and his executor was substituted, we shall hereafter include him in the terms "plaintiffs" and "appellants".

3. The basis of the motion was the statute of limitations, and it was denied strictly as a matter of pleading. *Owens Generator Co. v. H. J. Heinz Company*, 23 F.R.D. 121 (N.D. Cal. 1958).

ference (R. 161). Filing a "Pre-Trial Statement" (R. 163-180) in which it arrayed the facts as "admitted by plaintiffs" (R. 164), it stated (R. 174-175):

"Heinz has asked for this pre-trial conference to ascertain the basis upon which plaintiffs seek relief against *it*, to determine the issues of law, and to ascertain what, if any, possible issue of fact is involved in the claim against it. It desires, if possible, to avoid being involved in what may well be a long trial of a squabble between the former associates of the Generator Company involving charges and counter-charges of bad faith and double-dealing, all of which is apparent from the Lowenthal Request for Admissions and the responses thereto."

Appellants responded with a "Pre-Trial Agenda" (R. 181) in which they conceded that they were "*in general agreement with the evidentiary facts* of the case as stated by defendant Heinz." They repeated this concession at the pre-trial conference (R. 182 at 186, 187) and conceded that the issues might be reached by a motion by Heinz for summary judgment (R. 189, 194, 195). Finding some difficulty in pinpointing appellants' legal theory, the court then invited such a motion by Heinz (R. 193, 194).

Appellants had theretofore taken the depositions of Owens and Lowenthal (R. 330, et seq.; R. 376, et seq.), and before Heinz filed its motion these depositions were filed and appellants also took the deposition of plaintiff Tobin himself (R. 434, et seq.). Having awaited completion of discovery by appellants, Heinz then moved for summary judgment (R. 197). After full oral argument and written briefs, the motion was granted (R. 307-15), and judgment for Heinz was entered May 4, 1961 (R. 316). In granting the motion Judge Wollenberg made clear in his opinion (R. 307-315) that he was not passing on the rights of appellants as against the other defendants.

From the judgment plaintiffs appeal (R. 321). The defendants Owens and Lowenthal are not parties to this appeal.

Opinion below.

A copy of the opinion below is printed as Appendix I to this brief.

B. The Facts.

Since every matter of fact set out in Heinz's Pre-Trial Statement³ was admitted to be true (see p. 3, *supra*), many of the basic facts stated below will be keyed to it as well as to the underlying record.

1. The patents.

August 10, 1937, Owens, as patentee, obtained Patent No. 2,089,412 for a vinegar generator (R. 164). We shall refer to this as the "first patent".

March 25, 1941, as patentee he obtained Patent No. 2,236,153 for a vinegar generator (R. 164). We refer to this as the "second patent".

The statutory life of a patent being 17 years (35 U.S.C. § 154), the first patent expired August 9, 1954, several years before this suit was filed, and the second patent expired March 24, 1958, eight months after the suit was filed and over 3 years before entry of judgment.

2. Birth and demise of the Generator Company.

March 10, 1938, the Generator Company was incorporated in New Jersey by Owens and appellants Wittmer and Tobin (the latter acting primarily for two aunts, Mrs. Revere and Miss McCurry see fn. 14, pp. 25, 26 *infra*). The Generator Company then entered into three written agreements with Owens (R. 355, 359, 363). Thereby Owens granted to the Generator Company an exclusive license under the first patent⁵

4. And there documented to the record.

5. The second patent was then neither in existence nor applied for.

"for so long as [Generator Company] shall continue in business or to the end of the term for which the said letters patent, or any extensions thereof, were granted, *whichever event shall first occur*. If, however, the party of the first part shall terminate its said business at any time hereafter, whether by insolvency proceedings in any state court, Bankruptcy, or for any reason, either voluntary or involuntary, then, and in that event, the license hereby granted shall immediately terminate and become void and for nothing holden." (R. 359-60; also R. 20, 80, Admission to Request 31; R. 365)

Prior to November 25, 1941, the Generator Company became insolvent.⁶ On January 19, 1943, it was deprived of its charter by a proclamation of the Governor of New Jersey issued under New Jersey Stat., Tit. 54, ch. 11, §§ 1 and 2. Except for the power to sue and to be sued in winding up, the Generator Company *no longer had power to do anything*. Under section 2 of the foregoing statute, "all powers conferred by law upon [the company] shall thereafter be inoperative and void." Thus the Generator Company no longer existed "for the purpose of continuing the business for which [it was] established." N.J. Stat., Tit. 14, ch. 13, § 4 (R. 166).

3. Litigation with Heinz.

Meanwhile, after its birth but before its demise, the Generator Company and Heinz entered into a written agreement in August 1940 whereby Heinz agreed to purchase one "Owens generator", and the Generator Company and Owens proceeded to install the generator in Heinz's plant in Berkeley, California.

On December 7, 1942, Owens sent a letter to the Generator Company, saying (R. 342, 343, 373, 374):

6. On that day it and its officers and agents were enjoined, on petition of the Attorney General of New Jersey, "from the exercise of any franchise or the transaction of any business", and that injunction has never been dissolved and is still in effect (Br. 3; R. 18, 68, 79, 166, Adm. to Request 20(a) and (b); R. 166).

"* * * for the past two years the Owens Generator Company has not been conducting or carrying on any business of any kind or character and the undersigned has been recently informed by the office of the Attorney General of the State of New Jersey that an injunction was issued by the Court of Chancery of New Jersey on November 25, 1941 enjoining the Owens Generator Company from doing business.

"In view of the fact that for some time past this Company has not been engaged in any business and cannot engage in any business at the present time, it is obvious that in accordance with the express provisions of Paragraph 1 of the said agreement of March 11, 1938 the license granted by the undersigned has been terminated and has become void and it is the purpose of this letter to confirm the aforesaid termination of said license.

* * * * *

"The undersigned, however, will remain as President of the Owens Generator Company for such further reasonable time as the undersigned deems necessary to assist in the collection of the claim arising out of the sale and installation of the said generator [the one installed in Heinz's Berkeley plant] providing that the undersigned receives the necessary cooperation of the remaining officers and stockholders of the company."

Somewhat over a year before this letter and on November 25, 1941, Heinz obtained from Owens (not from the Generator Company) a written license to build generators under the first patent, in addition to the Berkeley generator. In 1943 Owens asserted that this license had been obtained from him by misrepresentation of its contents. He further claimed that, while the Generator Company no longer had an interest in the patent, it had had an exclusive license at the time he executed the 1941 license to Heinz and therefore that license, having been executed by him personally, was without effect. Heinz both denied the charge of misrepresentation and further asserted that during the time the Generator Company still had its exclusive right Heinz had obtained an oral

agreement from the Generator Company, as part of the arrangements by which it bought and paid for the Berkeley generator, that it could build more generators, and that the document of November 1941 merely fulfilled that commitment (Admission to XIV-9 and 11, R. 102 and 142).

Consequently, on November 16, 1943, the Generator Company and Owens, as plaintiffs, represented by Morris Lowenthal, Esq., as their attorney, brought suit against Heinz in the Superior Court of Alameda County "for declaratory and other relief" (R. 22-32).⁷ We shall refer to this as the Alameda suit.

One purpose of the suit was to rescind and cancel the license which Owens had given to Heinz in 1941; one of the allegations of the complaint was the contention, noted above, that the license, having been given by Owens at a time when the Generator Company was still exclusive licensee and without its authorization, was ineffective (Para. VI, R. 24, 25), an allegation with which Heinz took issue in its answer in that case (Para. X, R. 227 at 233, 234). Heinz's answer also raised the contention, mentioned above, that it had obtained an oral agreement from the Generator Company in 1940 that it could build more generators (Para. X, R. 233-4, Para. V, R. 243). This was one of the issues passed on by the Alameda Court in its findings (R. 221). If Owens should succeed in cancelling the 1941 license, the Generator Company would have been subject to a claim for damages to Heinz for breach of this alleged agreement, unless it should concurrently obtain a declaration that no such agreement had been made. It was therefore a proper party plaintiff to the suit, which sought just such a declaration, and it was joined as a plaintiff for that reason (R. 351). In *H. J. Heinz Co. v. Superior Court*, 42 C.2d 164, 170-71, 266 P.2d 5 (1954), the Supreme Court of California

7. While the Generator Company had theretofore ceased to exist for the purpose of continuing business, it still existed for the purpose of suing and being sued.

describes Heinz's answer in the Alameda action as asserting rights to build generators "not only upon the basis of the alleged 'license' of November 25, 1941, but also upon the basis of an alleged oral agreement claimed to have been made with plaintiffs [plural] prior to August 28, 1940 * * *."

The complaint in the Alameda action plainly alleged that Owens alone now had any interest in the patent. It further alleged that it sought an injunction against Heinz in order to protect *Owens'* right to utilize the patent in any way *he* saw fit for *his* benefit. Thus it alleged that *Charles Owens* "*now is the owner and holder of*" the patent (Para. IV, R. 23). It also alleged—not that the Generator Company was then a licensee or then had a license under the Owens patent—but *only that previously, during the years 1940 and 1941, it had had such a license* (Para. V, R. 23). The allegation that Owens personally was the owner when suit was brought, coupled with the allegation that the Generator Company *had been* a licensee for a period of time *then passed*, was, of course, an allegation that the Generator Company no longer had a license under the patent. These allegations were strictly conformable to the fact that the 1938 license from Owens to the Generator Company was to extend only "for so long as [the Generator Company] shall continue in business" and the further facts that in November 1941 the Generator Company had been enjoined by the Attorney General of New Jersey from doing business and in January 1943 had had its charter revoked (p. 5, *supra*).

The complaint further alleged (Para. V, R. 29) that Heinz threatened to build and operate vinegar generators

"of the type and character covered by the Letters Patent owned by plaintiff *Charles H. Owens*, and said threats and said claim to license to build said vinegar generators have caused and will continue to cause, unless defendant is enjoined and restrained by order of this Court, irreparable damage to and depreciation in the value of the letters patent

owned by plaintiff Charles H. Owens and the said threats and claims of defendant tend *to cloud the right, title and use that the said plaintiff* has in the said patent and to impair the market value thereof and to prevent *the said plaintiff* from handling and utilizing the same in the manner most to **his** interest as owner thereof.”

The Generator Company, as well as Tobin and Wittmer, were advised of the institution of the Alameda suit against Heinz in the name and on behalf of Owens and the Generator Company as plaintiffs, and they approved the filing of that suit. The Generator Company admits that it was a party to the suit (R. 142, Para. XIV-F) and concedes that it is bound by the allegations of the complaint and by the facts as adjudicated in the judgment thereafter entered (Br. 34).

The Findings of Fact and Conclusions of Law in the Alameda action issued in December 1944 and found that Owens “was and *now* is the owner and holder” of the patent (Para. IV, R. 208), and that “During all of the year 1940 *and the year* 1941 plaintiff Owens Generator Company, Inc., by a written agreement between plaintiff Charles H. Owens and plaintiff Owens Generator Company, Inc., was the holder of the exclusive license” under the patent (Para. V, R. 209).

Judgment was entered on December 21, 1944 (R. 33-34; admitted, R. 15, 79). It determined that the license of November 25, 1941 from Owens to Heinz was void, decreed that Heinz had

“no right or license to build or have built for itself or to maintain or to operate vinegar generators of the type, kind or character covered by the Letters Patent * * * *owned by plaintiff Charles H. Owens*, more particularly described as * * * No. 2,089,412 * * * and * * * No. 2,236,153 * * * (R. 33)

and enjoined Heinz (R. 34)

"from asserting any rights or claims based or founded upon or arising out of said original document of November 25, 1941 * * * and from asserting or claiming the right or license to build or have built for itself or to maintain or operate vinegar generators of the type, kind or character covered by any Letters Patent * * * *owned by plaintiff Charles H. Owens*, other than the one vinegar generator installed by plaintiffs at the H. J. Heinz Company factory in Berkeley, California."

It was admitted, in response to a request, that the Superior Court, by its judgment and findings, found that *Charles Owens* owned the patents (R. 100, 141, Admission to XII-10; R. 169).

The Generator Company, Tobin and Wittmer were informed of this judgment by March 27, 1945, if not earlier, for on that day Owens wrote another letter to the Generator Company, Tobin and Wittmer, admittedly received. By it Owens referred to his letter of December 7, 1942, notified them of the judgment, and gave notice that he was

"resigning as of the date of this letter from the office of President of the Owens Generator Company, and from said date henceforth will make no claims and assume no duties or obligations as an officer of the Owens Generator Company." (R. 73, 74, 170).

At no time did any of the former officers, directors or stockholders of the Generator Company object to this letter, do anything about it, or make any inquiry about anything in it; and at no time thereafter did the Generator Company engage in any business, purport to carry on, or continue in business, or advise Heinz that the Generator Company or any appellant still had or claimed any license or interest in either patent (R. 19, 82, Admission to Request 27; R 101, 141, Admission to XIII-12; R. 170).

4. The contempt proceedings.

More than 4 years later, on September 8, 1949, Owens, represented by Mr. Lowenthal as his attorney, instituted civil contempt proceedings against Heinz in the Alameda County Superior Court.⁸ These contempt proceedings were instituted *solely by Charles Owens on his own behalf alone*; none of the appellants were parties to the contempt proceedings, and Owens proceeded therein solely in his individual capacity (R. 17, 79, Admission to Request 14; R. 171).

In these proceedings Owens charged Heinz with violating the injunction of 1944 by building a number of generators. On July 13, 1951, the Superior Court issued in "interlocutory order" (R. 35-61) and on March 24, 1952, a "final order, decree and award" (R. 62). The Superior Court thereby held that by building a number of vinegar generators in and after June 1946 Heinz had violated the injunction to Mr. Owens' damage. Heinz was ordered to pay to Owens—not to the Generator Company—compensatory damages of \$375,934.66 and to destroy the generators. The "interlocutory order" found that the generators fell under the coverage of the first patent but stated that it was unnecessary to find whether they came under the second patent (Para. VI, R. 43; Para. VII-G, R. 51).

On appellate review⁹ Heinz contended that the Superior Court had no power to enter the contempt order, that a state court could not try an issue of patent infringement, since such an issue lay within the exclusive federal jurisdiction, and that it had been denied the right to litigate the scope of the patent and the validity of the patent, which the Superior Court refused to try. Owens

8. Contempt proceedings in California, even though they bear the same title and number as the action out of which they arise, are an independent and separate case. *In re Du Bois*, 120 C.A. 2d 890, 262 P.2d 340 (1953); *Gale v. Tuolumne County Water Co.*, 169 Cal. 46, 51, 145 Pac. 532 (1914).

9. Contempt proceedings in California are reviewable only by review akin to certiorari and confined to questions of jurisdiction.

argued that it was unnecessary to establish that the patent was valid. Heinz argued that the 1944 injunction merely enjoined building generators under a claim of right pursuant to the license of 1941. Owens argued that the injunction enjoined infringement and that, if it went too far, it should have been appealed.

The District Court of Appeal annulled the contempt order, 252 P. 2d 402 (1953). The Supreme Court of California granted a hearing, and on January 29, 1954 unanimously annulled the contempt order insofar as it awarded damages but, by a 4 to 3 vote, affirmed it insofar as it ordered destruction of the generators. *H. J. Heinz Co. v. Superior Court*, 42 C. 2d 164, 266 P. 2d 5 (1954).

5. Settlement of the controversies between Heinz and Owens.

Heinz then obtained from Mr. Justice Douglas of the United States Supreme Court a stay pending filing of petition for certiorari (R. 309; Br. 7). But before filing the petition, negotiations for settlement between Heinz and Owens occurred, and the matter was settled.

The "interlocutory order" in the contempt proceedings had found and adjudged that Owens "was and *now is* the *sole* owner and holder" of the patents, that while the Generator Company *had had* an exclusive license for a time, that license was "fully terminated and cancelled during the year 1945" (Para. II, R. 38). The final order found that the generators out of which the contempt proceedings arose had been built afterwards, i.e., in or after June 1946 (Para. V, R. 65), i.e., long after the date on which it was adjudicated that the license to the Generator Company had terminated.

Consequently, just as the Generator Company was no party to the contempt proceedings, it was no party to the settlement.

In May 1954 Heinz paid Owens \$200,000 for a written assignment of his rights in the second patent, \$40,000 for a written

assignment of his rights in the first patent, and \$10,000 for a written release and satisfaction of all claims possessed by him against Heinz (R. 173, 419-428). On May 17, 1954, the Superior Court of Alameda County, on the motion of Heinz and Owens, vacated the final order and interlocutory order in the contempt proceedings, and discharged the order to show cause on which the contempt proceedings were based (R. 264). The Superior Court also dissolved, *nunc pro tunc* as of December 21, 1944 (the date of its issuance), the injunctive provisions of the judgment entered in the Alameda suit (R. 268), as it had the inherent power to do (see p. 47, *infra*).¹⁰

In June 1954, if not earlier, Tobin knew that Owens had settled *his* litigation with Heinz (R. 17, 21, 83, Admission to Requests 13a and 35g; R. 173, 174). Appellants never made any attempt in the Superior Court to set aside the order annulling the injunction in the Alameda suit (R. 109, 142, Admission to XVI-5a; R. 174).

6. Review of facts relative to knowledge and state of mind of appellants, and relative to limitations, laches and other bars to suit based on delay.

Although Tobin knew very shortly of Owens' settlement with Heinz and his receipt of \$250,000, he entertained no thought that Heinz was thereby liable to the Generator Company. On the contrary, he welcomed the transaction and assumed, so he testified, that Owens would give the Generator Company a share of the \$250,000 (see item (t) on p. 19, *infra*). Only when Owens told him to "go to hell" did he seriously think of suit. And not until the suit was filed was there any intimation to Heinz of any claim against it (R. 109, 142, Admission to XVI-33).

This suit was filed on June 18, 1957—14½ years after the Generator Company's charter was revoked, 12½ years after the

10. In their brief at p. 4 appellants erroneously state that the "judgment" was vacated (Br. 4). Only the injunctive provisions were vacated; the declaratory provisions were not. Appellants' brief correctly states the fact at p. 7 and quotes the text of the order at p. 27.

judgment was entered in the Alameda suit, 11 years after Heinz built generators, 7½ years after the filing of the contempt proceedings by Owens, and over 3 years after those contempt proceedings had ended in a settlement between Owens and Heinz. It is a classic example of the case of persons who have known for years that any claim or pretensions they may have in or to property are denied and rejected and abandon any attention to it until they learn years later that another has realized some gain and then, after further long delay, cast about for someone with money to sue in the hope of a windfall.

Basic facts may be enumerated as follows:

(a) As far back as April or May 1938—19 years before this suit was brought—Tobin became antagonistic to Owens because Owens had applied for the second patent in his own name. Tobin testified that from April 1941 to some time in 1946 he never saw Owens or even tried to communicate with him (R. 506-7) and remained antagonistic to him at all times (R. 454-5, 501, 502), in good part because he felt that Owens had wronged the Generator Company by having the second patent issued in his own name, in March 1941. Tobin always thought that the second patent ought to belong to the Generator Company (R. 489, 510), and for years he had in mind that the Generator Company should bring some sort of suit against Owens to establish rights in the second patent; he talked to his son about this in 1941, 1942 and 1943 (R. 489, 490). Yet when Owens visited him at his home in 1946, Tobin said nothing on the subject (R. 463, 483-4), and he never did anything about it.

(b) Shortly after the Attorney General of New Jersey enjoined the Generator Company from doing business in 1941 Owens was denying any rights of the Generator Company in the first patent as well as the second. Appellant Wittmer knew this, for he wired Owens on July 10, 1942 stating that he had consulted lawyers to challenge Owens' asserted right to "withdraw patent from company" (R. 391).

(c) On December 7, 1942, Owens wrote the letter to the Generator Company denying any further rights of the Generator Company in the first patent (see pp. 5, 6, *supra*).

(d) On April 15, 1943, Mr. Lasher, an attorney representing Tobin's own principals in the Generator Company (see footnote 14 on p. 25, *infra*), wrote Owens asking him to withdraw his letter of December 7, 1942 "whereby he sought to terminate the license of the corporation" (R. 394, 395). Lowenthal, for Owens, replied on May 14, 1943, refusing to do so (R. 396). The reply said:

"Mr. Owens has asked me to state to you emphatically that he will not withdraw his notice * * *. *He has no intention whatever of granting a new license or of carrying on any further activities on behalf of the Owens Generator Company * * *.*" (R. 397)

(e) The Alameda suit was filed on November 16, 1943. Alleging that Owens owned the patents and that the Generator Company had merely been a licensee in 1940 and 1941, this again *was repudiation by Owens* and known to the co-plaintiff, the Generator Company, in 1943 (R. 464-5).

(f) The next day Mr. Lowenthal advised Mr. Lasher in writing of the filing of the suit (R. 568). Mr. Lowenthal asked Lasher to "relay this information to those connected with the company in the East." Lasher did forward the letter to Tobin (R. 488).

(g) The Alameda judgment, December 31, 1944, adjudicated that Owens owned the patents.

(h) Appellants knew of this judgment. On March 27, 1945, Owens wrote a letter, with separate copies sent to the Generator Company, to Bentley, its secretary, to Tobin, to Wittmer, and to McCurry (a large investor, see fn. 14, p. 25, *infra*). This was received by each (R. 19, 73, 79, Admission to Request 26; R. 101, 141, Admission of XIII-7 to 11). The letter reads (R. 73):

"On December 7, 1942, you were informed by the undersigned that he would remain as President of the Owens Generator Company 'for such further reasonable time as the undersigned deems necessary to assist in the collection of the claim arising out of the sale and installation of the (H. J. Heinz Company) generator, providing that the undersigned receives the necessary cooperation of the remaining officers and stockholders of the company'.

"Despite the fact that the cooperation referred to was not given to the undersigned, the undersigned proceeded to comply with the foregoing statement and collected the claim against H. J. Heinz Company for the generator installed by the Owens Generator Company at the H. J. Heinz Company's Berkeley plant.

"In addition, the undersigned at his own expense prosecuted a legal action against the H. J. Heinz Company and obtained a permanent injunction against the H. J. Heinz Company claiming the right to manufacture or have made for itself any generators of the type covered by the patent owned by the undersigned.

"The undersigned believes that he has gone beyond his obligations and duties as an officer of the Owens Generator Company, despite the failure of the company and of its other directors and stockholders to give him any assistance either financially or otherwise.

"In any event, in accordance with the letter of December 7, 1942, the undersigned is hereby notifying you that he is resigning as of the date of this letter from the office of President of the Owens Generator Company, and from said date henceforth will make no claims and assume no duties or obligations as an officer of the Owens Generator Company."

This letter referred to that of December 7, 1942, reaffirmed it, advised of the judgment against Heinz, and asserted that the patents belonged to Owens. The last paragraph makes quite clear that "from said date [March 27, 1945] henceforth [the undersigned] *will make no claims and assume no duties or obligations*

as an officer of the Owens Generator Company". This repudiated any further fiduciary obligation to the Generator Company, if any theretofore existed.

(i) This letter of March 1945 was intended by Owens to mean, and was understood by Tobin to mean, that Owens had "quit", lock, stock and barrel. Thus Tobin testified that he did not care where Owens was, because "He quit in 1945" (R. 506). This is further evidenced by a letter of January 4, 1949 to Owens (R. 135) from one Permut as Wittmer's attorney, written at Wittmer's request and on the basis of information given by Wittmer (R. 91, 139, Admission to III-39, 40, 41). It states:

"As you will recollect, Mr. Wittmer, you and some others *were* associated in connection with the vinegar generator *up to* about the year 1942."

This clearly recognizes that Owens ended the association about 1942.

(j) At no time after the letter of March 1945 until this suit did anyone connected with the Generator Company claim that Owens was thereafter "an officer of the corporation", "a director of the corporation", a "stockholder of the corporation", or "owed any fiduciary duty as officer, director, or stockholder, to the corporation" (R. 101, 141, Admission to XIII-14).

(k) Tobin knew, for years before the instant suit was filed, that Owens had denied any rights of the Generator Company in the first patent. Thus on March 10, 1955, he wrote to an attorney, Mr. Leary (R. 275):

"Through some procedure *Mr. Owens withdrew his patent from the Owens Generator Co.* and sued Heinz in California *in his own behalf* and recently settled with Heinz for a very substantial amount (\$250,000).

"The writer *always felt that Mr. Owens had no right to withdraw his patent* from the company and feels he has an action against both Heinz and Owens * * *."

This letter states what Tobin had understood and believed for years. But despite this feeling, neither Tobin nor the Generator Company did anything about it.

(l) Although the Generator Company, as party to the Alameda action, knew in 1943 that that suit had been brought (R. 465-6) and was chargeable with knowledge of its adjudication that Owens owned both patents, it never communicated with Heinz orally or in writing (R. 493), and when Tobin received the letter of March 1945, which referred to Owens' letter of December 7, 1942, he made no effort to find out what it was about (R. 506).

(m) The Generator Company knew in 1953 that Owens was again carrying on litigation with Heinz, *on his own behalf*, for Tobin was so told by one of the family in Idaho (R. 482). (The decision of the District Court of Appeal in *H. J. Heinz Co. v. Superior Court*, 252 P.2d 402 was handed down on January 14, 1953). This was a year before Heinz settled with Owens.

(n) In January and February 1954—still several months before Heinz and Owens settled—Mrs. Tobin, having visited Owens in California (R. 467), reported to Tobin that the Owensens were “winning legal actions against Heinz” (R. 478; also R. 83). The Supreme Court of California decided *H. J. Heinz v. Superior Court*, 42 C.2d 164, 266 P.2d 5, on January 29, 1954.

(o) The settlement was not concealed. It was in part effected through court proceedings in Alameda County on May 17, 1954 and by writings recorded in the Patent Office on June 24, 1954 (R. 203, 206).

(p) About June 21, 1954, just 3 days short of 3 years before this suit was brought, Mrs. Owens sent to Tobin a photograph of Owens, herself and Mr. Lowenthal holding the settlement check and Tobin saw it (R. 468-471, 573).

(q) That very day Tobin's cousin, Jack Revere, visited him and told him that Owens had received money in settlement from Heinz (R. 468, 476-7), but Tobin was not sufficiently interested

or diligent to ask how much (R. 513). *Tobin then suggested to Revere that the Generator Company should bring suit* (R. 480-1) and “knew” that he was going to take some action against Owens and Heinz (R. 514). *But still the Generator Company did nothing.*

(r) In August or September 1954 Tobin asked the Generator Company’s attorney, Mr. Bentley (R. 436), to sue Heinz and Owens, to take the present case and told Bentley that Owens had received \$250,000 in settlement (R. 475-478).

(s) In January or February 1955 Mrs. Tobin again visited the Owensens. Before she came home, and while telephoning Tobin, Owens came on the line to say hello; Tobin said nothing to him about any claims, although he had already asked a lawyer to sue Owens, but asked Mrs. Tobin to tell Owens to get in touch with him. On her return home she reported to Tobin that when she told this to Owens the latter had said that the Generator Company could “go to hell” (R. 497, 512-513). By this Tobin understood Owens to mean that he was not going to share any of the settlement proceeds with the Generator Company (R. 514).

(t) Tobin testified that one reason why he did not bring suit in 1954, when he learned of the settlement, is that he thought that Owens would give some of the proceeds to the Generator Company; that he “assumed from June of 1954 to [the time Owens told him to “go to hell”] that [he was] going to share in that check”, i.e., the \$250,000 settlement check (R. 513-14).

(u) In 1954 or 1955 Tobin spoke to Revere’s mother, who had put up most of the money in the Generator Company (see fn. 14, p. 25, *infra*), and suggested that the Generator Company should sue. In fact, he said that he was going to sue (R. 481).

(v) Appellants have admitted that Owens did not dominate the Generator Company after January 19, 1943, if he did before:

“plaintiffs do not contend that after January 19, 1943, the corporation or its former stockholders, directors, officers, or statutory trustees were unable to commence legal action

against Charles H. Owens on any claims that said corporation or said officers, directors, stockholders or trustees may have had against Charles H. Owens." (R. 104, 142, Admissions to XV-32; also to XV-34).

(w) Throughout the years the Generator Company tried to keep itself ignorant of what was going on. Referring to a visit of Owens to Tobin's home in 1946, where his wife and the Owenses were engaged in conversation, Tobin said, "I would put myself in the position that I wouldn't listen" (p. 491).

C. Jurisdiction rests solely on diversity of citizenship; this is not a suit for patent infringement.

While patents lie at its base, this is not a patent case, for appellants admitted that the complaint sought no relief against Heinz for patent infringement and did not contend that any patent involved was ever valid (R. 17, 80, Admissions to 18a, 18b, 18c). This was confirmed by the fact that the court's jurisdiction was invoked solely upon the basis of diversity of citizenship (Br. 2; Compl. Paras. 1 and 2, R. 1; R. 17, 19, Admission to 18(f)).

D. Questions Involved and Summary of the Argument.

Appellants state but one question as being involved (Br. 4): Whether Heinz was without notice of appellants' "rights" when it paid Owens and Lowenthal the sum of \$250,000 in the settlement of May 1954.¹¹ Appellants do not indicate in their statement of the question the nature of the "rights" to which they refer or the nature of the "property" to which the "rights" relate.

1. The first question is whether appellants had any rights at all. The District Court held that they did not. The 1938 instrument creating the Generator Company's interest in the first

11. A second question is stated (Br. 5) as whether there is any genuine issue of fact, but appellants immediately concede "that there is no genuine issue as to any material fact".

patent was either a license or an assignment. If a license, it terminated when the licensee lost its corporate existence in 1943, for a license is personal. If an assignment, it automatically terminated when the Generator Company ceased business, in accord with its express specification of its duration. Moreover, the 1944 judgment in the Alameda action, to which both Heinz and the Generator Company were parties, is *res judicata* that the Generator Company no longer had an interest. As for the second patent, if the Generator Company ever had an interest, it came to an end at the same time and for the same reason as the first patent.

2. Only if it be assumed that appellants had an equitable interest in the patents is the **second question** reached, whether Heinz had notice. The District Court held that it did not. A major fact is that in the Alameda complaint of 1943, the Generator Company represented, and the court then adjudged, that the Generator Company's interest was merely that of a one time license since expired. The orders in the contempt proceedings reasserted this fact to Heinz, and the Generator Company, while aware of both litigations, never asserted to Heinz any contrary claim.

There are still other questions. Even assuming that appellants otherwise had rights,

Did Heinz invade them? and

Were they not barred by time under doctrines of limitations and laches?

The District Court stated that it did not find it necessary to reach these issues, although raised by Heinz (R. 315). But since it is elementary that a "successful party in the District Court may sustain its judgment on any ground that finds support in the record", *Jaffke v. Dunham*, 352 U.S. 280, 281 (1957); *Tinnerman Products, Inc. v. George K. Garrett Company*, 292 F.2d 137, 138 (3 Cir. 1961), we shall conclude our brief with a discussion of these additional grounds for affirmance.

3. As respects the first of these two additional questions, appellants' sole theory is that of a constructive trust. But there is no *res* on which a trust can operate. The patents are expired. No profit came to Heinz from the assignment of the patents to it, for it did not exercise the patents or receive anything from others as royalties. Appellants suffered no loss, for they never sought to exercise the patents or were denied the right to do so. Nor can appellants recover for the annulment of the injunction provisions of the 1944 judgment, because (a) having been annulled, the injunction legally never existed, (b) the injunction issued for the protection of interests of Owens only and not of the Generator Company, and (c) the Generator Company lost nothing by virtue of the annulment. Finally, by failing to disaffirm the assignments by Owens to Heinz for nearly 3 years, the Generator Company in law affirmed and ratified them.

4. The case is barred by limitations because Owens repudiated and denied, to the Generator Company's knowledge, any interest or claim on its part to either patent, many years before 1954. Additionally, suit was commenced over 3 years after the 1954 settlement, and appellants failed to show lack of discovery. Even on appellants' theory that suit was commenced 2 years, 11 months and 25 days after "discovery", this delay constituted laches barring a suit to impress a constructive trust.

ARGUMENT

I.

APPELLANTS WERE WITHOUT RIGHTS IN THE PATENTS.

A. First Patent: Any interest appellants had therein expired by its terms years ago, and this is *res judicata*.

1. The license ceased when the Generator Company ceased business.

The only interest the Generator Company ever had in the patents was a license in the first one. That license, by its express terms, was only "for so long as [the Generator Company]

shall continue in business" (see p. 5, *supra*). The Generator Company was plainly out of business after January 19, 1943, when the Governor of New Jersey, acting under New Jersey law, deprived the Generator Company of its charter, and it thus entirely ceased to exist "for the purpose of continuing the business for which [it was] established." (see p. 5, *supra*) Moreover, appellants admitted that at no time after receipt of the letter of March 27, 1945 did the Generator Company "engage in any business or purport to carry on or continue in business" (R. 101, 141, Admissions to XIII-12). Thus the patent license terminated automatically no later, in any event, than March 1945, and Heinz built no vinegar generators and bought no patent rights or claims from Owens until long afterwards. Using the phrase "condition subsequent" to refer to the specification that the term of the grant was "for so long as the said [Generator Company] shall continue in business", appellants concede that "It is indisputable that the condition subsequent came to pass," (Br. 41).

The consequences of these facts are self-evident:

1. Treating the patent agreement as a license, as it describes itself, it automatically terminated when the Generator Company ceased to have any legal right to exist, *even had it not contained the quoted termination language*, because a patent license ceases when the licensee ceases to exist. In *Haffcke v. Clark* 50 Fed. 531, 536 (4th Cir. 1892), it is said:

"It is settled law that a license to use a patent is a personal privilege, which terminates with the life of the individual licensee to which it is granted, unless the grant contains words expressly conferring the power to sell or assign. In the absence of such power, if the licensee be a natural person and dies, or an artificial person or partnership and ceases to exist, the license expires equally in either case."

In *Keystone Type Foundry Co. v. Fastpress Co.*, 272 Fed. 242, 246 (2nd Cir. 1921), it is said:

"But plaintiff has gone out of business; it has ceased its corporate activities, except for the purposes of liquidation and is in the process of arriving at a legal death. Under such circumstances its license expired with the cessation of its corporate activity. *Haffcke v. Clark*, 50 Fed. 531, C.C.A. 570, citing cases."¹²

2. Appellants argued in the court below that the license should be construed, not as a license, but as an assignment, subject to defeasance on the happening of a "condition subsequent" which would give the patentee a right of "re-entry" but require the exercise of the right of "re-entry" by some affirmative assertion. The District Court succinctly answered this by observing (R. 312) that if the agreement were to be construed as an assignment, then the "words of the assignment control: 'For so long as such [Generator Co.] shall continue in business.'" *Those words measure the duration of the grant*, and under the plain meaning of the language the duration came to an end automatically. The interpretation of a patent assignment is the same as the construction of the meaning of any contract. *Nicolson Pavement Co. v. Jenkins*, 81 U.S. 452, 456 (1871). The event occurring, the grant ceased by "operation of law", *Pierpoint Boiler Co. v. Penn Iron & Coal Co.*, 75 Fed. 289, 293 (1896), and no act of Owens was necessary to effect a cessation. A case which appellants frequently cite, *Daily v. Universal Oil Products Co.*, 76 F.Supp. 349 (1947), recognizes that a license to continue "so long as the company, its successors or assigns should in good faith carry on the process

12. The District Court also cited, to the same effect, *Kenyon v. Automatic Instruments Co.*, 63 F. Supp. 591 (W.D. Mich. 1945). Appellants assert that *Kenyon* was reversed on appeal in 160 F.2d 878 (1947). But the Court of Appeals did not disapprove the principle that a license ceases when the licensee ceases; it differed from the District Court simply by construing the particular agreement as an assignment of the patent and not a license.

*** under said letters patent ***" (p. 353) would end when the licensee ceased to carry on the process.¹³

3. In the third place, if it was necessary for Owens to act affirmatively to terminate, he did so by his letter of December 7, 1942, quoted at p. 6, *supra*.¹⁴ And Tobin fully understood

13. As there said, 76 F.Supp. 349 at 357,

"Whether title to the patents remained in Sunset until the patents were transferred in 1914, depended on whether the Sunset Oil Refining Company, its successors or assigns, continued in good faith to carry on at that time the process of treating and refining petroleum oils."

While the court in the *Daily* case found that the licensee had never ceased to carry on the process, i.e., that the event marking termination had not occurred, appellants concede that the event did occur in the present case (p. 23, *supra*). In the *Daily* case the license was to Sunset, "*its successors or assigns*", words underscored by the court (*Id.* at 353). Here the license was wholly personal to the Generator Company.

14. Appellants have abandoned a contention tentatively made below that the letter was not received. The contention was based solely on a statement of Tobin on deposition merely that *he* did not "recall" receiving the letter (R. 464). Of course, this was not evidence that he did not receive it. Moreover, the letter was sent in several copies, not only one to the attention of Tobin, but one to Wittmer and one to Bentley, neither of whom denied receipt. The statement in appellants' brief (p. 17) that there is a dispute as to whether Wittmer received it has no basis in the record. Bentley was the Generator Company's general counsel (R. 95, 140; Admission VII-91), its agent for service of process named in its charter (R. 517), the person whose office was the Company's main office (R. 96, 140, Admission VII-101), and an officer of the Company, and handled its correspondence (R. 91, 96, 104, 139-140, 142; Admission III-7a, VII-96, 100, 113, XIV-49, 50). Moreover, the letter is referred to and quoted in part in the letter of March 27, 1945 from Owens to appellants, which Tobin admits he received without objection or inquiry about anything in it (R. 19, 73, 79, 82; Admissions of Requests 26 and 27). In his deposition Tobin again admitted that he received the letter of March 27, 1945 but made no inquiry respecting the earlier letter (R. 466, 467). Furthermore, a Mr. Milton Lasher informed Owens on December 31, 1942 that the letter of December 7, 1942 had been brought to his attention (R. 136). Mr. Lasher was the attorney for Miss McCurry and Mrs. Revere, and they were two of the investors in the Generator Company and aunts of Tobin; in fact they had put up four-fifths of all the cash for which stock was to be issued in Tobin's name and which was the only cash ever received by the company for stock (R. 92, 97, 140; Admissions to VI-5, 6 and VIII-3). Revere had guaranteed obligations of the Company (Br. 13). Tobin testified that from the begin-

that Owens had done so; we quoted at p. 17, *supra* a letter of Tobin's in which he said he had long known that "Mr. Owens withdrew his patent from the Owens Generator Co. and [then] sued Heinz in California in his own behalf."

2. It is, moreover, *res judicata* that the Generator Company's interest ceased years ago.

Because of their plain untenability, appellants abandon the arguments they made on the subject below and, embracing an argument we made in the District Court, try to turn it upside down. We said below¹⁵ that if the license were a grant of an exclusive right for the entire life of the patent, subject only to termination on a "condition subsequent", it would have been in legal effect an assignment of the ownership of the patent, regardless of what it was called, but in that event it was *res judicata* that the assignment had come to an end, because the Generator Company, Heinz and Owens, *all three*, were parties to the Alameda action and whatever was adjudicated in that action, and whatever matter might have been urged to sustain or defeat the determination, is conclusively binding on each and all of them here. *Brewer v. King*, 139 C.A. 2d 33, 42, 293 P.2d 126 (1956); *Krier v. Krier*, 28 C.2d 841, 843, 172 P.2d 681 (1946); *United States v. Munsingwear*, 340 U.S. 36, 38 (1950); *Mitchell v. Jones*, 172 C.A. 2d 580, 585-6, 342 P.2d 503 (1959); *Price v. Sixth*

ning he represented their interests in the Generator Company (R. 442, 479). By a letter of April 15, 1943 to Lowenthal (R. 394-5) Lasher asked Owens to withdraw the letter of December 7, 1942. Obviously Lasher got the letter of December 7, 1942 from his clients, McCurry and Revere, the principals of Tobin, and they got it from Tobin. It is obvious why appellants do not now contest that the Generator Company received the letter (Br. 17).

15. Citing *inter alia*, *All Steel Engines, Inc. v. Taylor Engines*, 88 F. Supp. 745, 747 (N.D. Cal. 1950); 69 C.J.S. Patents § 223, p. 738; *Dyrenforth v. Palmer Pneumatic Tire Co.*, 240 Ill. 25, 88 N.E. 290, 295 (1909); *Allen v. Werner*, 190 F.2d 840, 842 (5 Cir. 1950).

District Agricultural Assn., 201 Cal. 502, 511, 258 Pac. 387 (1927).

The complaint in the Alameda action alleged that Charles Owens "now is the owner and holder of the patent" (p. 8, *supra*). The Supreme Court of California has described the complaint as "charging that *he* [Owens] was the owner of a patent for a vinegar generator", *H. J. Heinz v. Superior Court*, 42 C.2d 164, 166, 266 P.2d 5 (1954). That complaint alleged that the Generator Company *had been* a licensee *at a prior time*, then past, in 1940 and 1941, and the findings, conclusions and judgment of December, 1944 adjudicated that the patent was then owned by Charles Owens. It was thus adjudicated either that no exercise of a "right of re-entry" had been necessary to terminate the Generator Company's interest, or, if necessary, it was done. That is, the findings and judgment in the Alameda action that Owens was *then* the owner of the patent *was an adjudication that whatever fact was necessary to make him the owner, whether a sufficient exercise of a right of re-entry, occurrence of a condition subsequent, or whatever other fact was necessary, had occurred*. Behind that determination the parties may not go.

Appellants now urge that the license was an assignment (Br. 30) and adopt our argument, which they resisted below, that the findings and judgment in the Alameda action are *res judicata* and conclusive (Br. 34, et seq.). But they then argue, with audacity, that the "District Court misconstrued the Alameda judgment" and that, instead of adjudicating that Owens was the owner, it adjudicated that the Generator Company was an owner! (See Br. 35, et seq.)

There is no substance to this effort to call black white. The gist of the effort is that while the Alameda court adjudicated that Owens was the "owner", it did not say "sole owner". But the common sense meaning of a judgment that A is the owner, in a

suit where B is also a party, is that B is not.¹⁶ Indeed, appellants' present position runs counter to the admission in response to a request for admission (No. XII-10, R. 100, 141):

"That the Court in its judgment and findings in the action against the H. J. Heinz Company, Alameda County Superior Court No. 175935, in December, 1944, found that *Charles H. Owens owned the patents.*"

The judgment went further; it *expressly adjudicated what interest the Generator Company had* by finding that the Company *had been* a licensee in 1940 and 1941—a time then past, i.e., that it was not a licensee now. This adjudication necessarily conclusively determined that the agreement of 1938 on which the Generator Company founds its claim was a license agreement, and adversely disposes of the argument about "conditions subsequent" and construction of it as an assignment of title.

Moreover, the interpretation of a decree is for the court that issues the decree; it knows best what it meant. Here the Alameda court, in the subsequent contempt proceedings, interpreted its prior judgment as saying that Owens was the "sole owner" (R. 38, and see Br. 22).¹⁷

The fact that the Generator Company was a proper party plaintiff in the Alameda action neither gave to it nor recognized in it any right in the patent.

Appellants also seek to draw comfort from the fact that the Generator Company was recognized as a proper party plaintiff in the Alameda action and that one of the conclusions of law there was that "Plaintiffs Charles H. Owens and Owens Generator

16. The only case appellants cite on this argument, *Pacific Coast, etc. Bank v. Roberts*, 16 C.2d 800, 108 P.2d 439 (1940) is not remotely in point. It merely holds that within the meaning of a particular statute, a mortgagee is not an "owner".

17. Since the Generator Company was not a party to the contempt proceedings, nothing therein is *res judicata* as between it and Heinz. But the orders in the contempt proceedings show how the very same judge in the Alameda court interpreted his own prior judgment.

Company are entitled" to the decree the court was rendering (R. 225; Conclusion VII). Appellants repeatedly fall back on this (e.g., Br. 21, 37, 41) and argue that if the Generator Company's rights in the patent had ended, it would have been necessary to dismiss it from the suit (Br. 40).

But we have seen why the Generator Company was a proper plaintiff although without interest in the patents (see pp. 6-8, *supra*). One of Heinz's contentions was that during the period when the Generator Company did have the exclusive license, it orally agreed with Heinz to give the latter a license to build other generators, and that the license given by Owens to Heinz in 1941 was in fulfillment of this commitment. If such a contract existed, and if the Owens' license to Heinz was not performance of that contract, the Generator Company could be liable in damages to Heinz for its breach. The Alameda complaint therefore not only sought to cancel the 1941 license given by Owens to Heinz but also, as shown by its title, to obtain a declaration that the Generator Company had made no such contract.

The injunction not only enjoined infringement of the patents but first it enjoined asserting rights or claims under the license (R. 34). In that phase of the injunction the Generator Company had an interest, since Heinz claimed the license on the basis of a contract with the Generator Company. But on its very face the Alameda complaint belies appellants' present contention that the complaint sought an injunction in order to protect any right of the Generator Company in the patents. At pages 8, 9, *supra* we quoted an allegation from that complaint which plainly stated that an injunction was sought to prevent a cloud on the "right, title and use that *said plaintiff* [Owens] had in the patent" and to safeguard "the *said plaintiff*" [Owens] in utilizing the patent "in the manner most to **his** interest as owner thereof."

Appellants' argument is unmindful of the modern liberal procedure for joinder of claims and parties, which was designed to

permit determination in one action of related matters, not to confer property rights on every party in every part of the judgment. *Gartler v. First Nat. Bk. of San Pedro*, 88 Cal. App. 411, 263 Pac. 566 (1928), cited by appellants (Br. 38), plainly states that parties may be joined as plaintiffs if there is a community of interest in their theories, although the relief each seeks or is granted is not exactly the same; yet *Gartler* was decided when Cal. Code of Civil Procedure § 378 was much narrower than it is now. When *Gartler* was decided, Section 378 read, as quoted in the opinion at p. 413:

"All persons having an interest in the subject of the action, and in obtaining the relief demanded, may be joined as plaintiffs, except when otherwise provided in this title."

After that and before the Alameda case was filed, Section 378 was broadened to read:

"All persons may be joined in one action as plaintiffs who have an interest in the subject of the action *or in whom any right to relief in respect to or arising out of the same transaction or series of transactions is alleged to exist, whether jointly, severally or in the alternative, where if such persons brought separate actions any question of law or fact would arise which are common to all the parties to the action*; provided * * * judgment may be given for such one or more of the plaintiffs as may be found to be entitled to relief, for the relief to which he or they may be entitled."¹⁸

18. None of the other cases cited by appellant on the subject (Br. 37, 38) is relevant. *Brum v. Ivins*, 154 Cal. 17, 96 Pac. 876 (1908) merely held that one who lets a judgment go against him by default is bound by it and cannot sue in equity to set it aside merely because he would have had a meritorious defense. In *Collins v. Butler*, 14 Cal. 223 (1859), two persons, as partners, had sued Collins, setting up their ownership as partners and recovering judgment for conversion. Collins later sued in equity to enjoin the judgment on the ground that the property he had converted really belonged to only one of the plaintiffs in the first suit and that he was entitled to a set-off of a claim he had against that one person. It was merely held that in the first suit he could have denied that the property was owned by the partnership and tried the issue then; not having done so, could not relitigate it in a second suit.

3. The case involves neither "waivers" nor "forfeitures".

Appellants' brief is replete with the word "forfeiture" and references to the specification in the agreement of its duration as a "forfeiture clause" (e.g., Br. 40, 42). But the grant of an interest for a limited time involves no "forfeiture" when the time expires, any more than anything is "forfeited" on the death of an owner of a life estate.¹⁹ The grantee gets what he buys and no more.

No more meritorious is appellants' claim that Owens "waived" the termination of the license (e.g., Br. 17, 42). This is but a rephrasing of the fallacious claim that joinder of the Generator Company as a plaintiff in the Alameda action was inconsistent with termination of its interest. And there are several other flaws in the argument. First, the termination had already occurred before the Alameda suit was commenced. The Generator Company had been enjoined by the Attorney General of New Jersey from transacting any business at the end of 1941 (see p. 5, *supra*), so that it could not thereafter "continue in business", and in December 1942 Owens had already notified the Generator Company that the license therefore was at an end. Again, in January 1943 the Generator Company's charter was revoked. The Alameda suit was not commenced until November 1943.

Next, waiver is the "intentional relinquishment of a known right". Ordinarily, it requires either a new agreement with consideration or conduct creating an estoppel, that is, reliance to its prejudice by the party claiming waiver. Neither is present here. In the rare situations where waiver may be raised in the absence of the foregoing, the conduct must rise to an "abandonment".

19. Appellants (Br. 43) cite *Haserot v. Keller*, 67 Cal. App. 659, 228 Pac. 383 (1924) as speaking of a forfeiture clause. The facts there were quite different. A patentee assigned, without limitation as to duration, an absolute $\frac{1}{2}$ interest in the patent but obtained an agreement to reassign on demand if the assignee failed to sell a minimum of 25 units of the patented article per month.

Chase v. National Indemnity Co., 129 C.A. 2d 853, 858, 278 P.2d 68 (1954).²⁰ It is baseless to argue that, by joining the Generator Company as a plaintiff in *the very complaint which alleged that Owens alone owned the patents*, that the Generator Company's license was one that had existed in 1940 and 1941, and that the injunction was sought to safeguard Owens in utilizing the patent "most to *his* interest as owner thereof", Owens waived the claim that he did own the patents and relinquished to the Generator Company power to interfere with his utilizing the patents as he saw fit to his own interest. Not only did Owens not understand that he was waiving anything, but Tobin did not suppose that Owens was, for Tobin later wrote that Owens "withdrew his patent from the Generator Co." (See p. 17, *supra*).

Finally, the Alameda judgment by having adjudicated that the Generator Company's license had terminated precludes any contention of waiver. The judgment implicitly adjudicated that nothing had occurred and that no fact or circumstance existed—whether waiver or anything else—which militated against the conclusion that Owens was then the owner and that the license had

20. In the *Chase* case the court said (p. 858):

"To constitute a waiver there must be an existing right, a knowledge of its existence, and an actual intention to relinquish it, or such conduct as warrants an inference of the relinquishment. It is a voluntary act and implies an abandonment of a right or privilege—an election to dispense with something of value or to forego some advantage which one might, at his option, have demanded. In no case will a waiver be presumed or implied contrary to the intention of the party whose rights would be injuriously affected thereby, unless by his conduct the opposite party has been misled, to his prejudice, into the honest belief that such waiver was intended or consented to."

Bowers, *The Law of Waiver*, pp. 20-21:

"The doctrine of waiver has in every case one of three principles for its foundation—the concurrence of the wills of the parties; a contractual relation created by law; or estoppel induced by conduct."

In *Haserot v. Keller*, 67 Cal. App. 659, 228 Pac. 383 (1924) (App. Br. 43, discussed in footnote 19, *supra*) there was a waiver by reason of fraud and estoppel. When the assignee asked his assignor for samples to use to sell the articles in performing his commitment to sell 25 units per month, the assignor replied that he wanted none sold.

expired. *Krier v. Krier*, 28 C.2d 841, 843, 172 P.2d 681 (1946). This same fact also precludes appellants' argument that some fiduciary relationship between Owens and the Generator Company estopped Owens from standing on the termination provisions of the license (Br. 43).

B. Second Patent: Either the Generator Company never had any rights or they terminated long ago.

The second patent differs from the first in that Owens never recognized any right of the Generator Company in the second patent for any period, however brief. It was not issued by the Patent Office until nearly 3 years after Owens' license to the Generator Company, and there was no other license or assignment.

1. The basis of any claim to the second patent is nowhere clearly stated. No assignment or license by Owens to the Generator Company even mentioned the second patent. No document apprised Heinz of any interest of the Generator Company in the second patent. Heinz's 1940 agreement with the Generator Company to buy a generator antedated the second patent and referred only to a generator "identical and similar to, in every respect, the Owens installation at the plant of the Frank Tea & Spice Company, Cincinnati, Ohio" (R. 31; also Br. 13). The Frank generator was being built by Owens, under the first patent, before the Generator Company was formed (See Complaint, paras. 7 and 11, R. 2, 4; also Br. 11). The first mention to Heinz of the second patent was in the very judgment in the Alameda action which adjudged that both patents belonged to Charles Owens alone (R. 33).

Unless the claim is to be found in the allegations that Owens "agreed" with the Generator Company to grant it a license with respect to "improvements", the complaint alleges no license or grant of the second patent. We leave it to Owens and the Generator Company to litigate whether this covered an interest in the later patent. It does not affect Heinz, because the license to the

Generator Company was never recorded in the Patent Office (R. 21, 79; Admission to 34) and the patent laws protect a subsequent purchaser against a prior transfer of an interest which is not so recorded (35 U.S.C. § 261).

2. Moreover, if an interest in the second patent was created by the license that created the interest in the first patent, it came to an end when the interest in the first patent came to an end and for the same reasons.

Appellants' brief possibly argues that the Generator Company had an equitable right to the second patent because Owens was in a fiduciary relationship when he obtained it and used corporate funds (e.g., Br. 11). But *if* there was a fiduciary relationship, it arose by virtue of the very documents by which Owens entered the employ of the Generator Company and agreed with it on what their rights would be in the first patent and in "improvements", viz., that the Generator Company would have an interest *only so long as it continued in business*. The documents cannot be invoked to create the relationship and rejected as measuring the duration of the parties' rights.

3. The 1944 judgment is also *res judicata* that the Generator Company had no interest in the second patent, as well as in the first. The judgment refers to *both* patents; and appellants' response to requests for admissions admitted that it so adjudicated the ownership of *both* patents (R. 100, 141; Admission to XII-10).

C. No equity of appellants, if there were any, reached through to Heinz, which had no notice.

Plainly, if the Generator Company ever had a legal interest in the patents, it ceased to do so long before Heinz settled its dispute with Owens. Whatever *legal* interest the Generator Company had came to an end when it ceased to be in business, leaving full

legal title in Owens. Appellants therefore seek to fall back on some equitable interest.²¹

They do *not* claim that Heinz was ever a fiduciary to them but would charge Heinz with their alleged equities against Owens, on the theory that Heinz took from him "with notice" (Br. 46-60), conceding that "Heinz is protected if it was 'without notice'" (Br. 46). Preliminarily, it may be observed, the burden was on appellants to show notice, not on Heinz to show lack. Under California law, which governs, he who claims that by virtue of an equitable interest he has a right superior to the legal title has the burden of proving notice or lack of notice, as the case may be. *Ferguson v. Ferguson*, 58 C.A. 2d 811, 814-15, 137 P.2d 735 (1943).²²

The towering fact in this case is that twice in ten years Heinz had been pursued and harassed in litigation, and each time it was told both by the adverse parties *and* the court that Owens owned

21. While Heinz has not involved itself in the question whether, as between Owens and the Generator Company, there were equities, the briefest inspection suffices to show that some of the arguments are incorrect. For example, appellants' assertion that a patent owner is a trustee for his exclusive licensee is supported by none of the cases cited (Br. 36-37). What *Ind. Wireless Co. v. Radio Corp.* 269 U.S. 459 (1926) carefully says (p. 469) is that the patentee holds title in trust for his licensee "to the extent that he must allow the use of his name as plaintiff" in any action for infringement "brought at the instance of the licensee", since a licensee cannot himself sue for infringement. The other cases cited, while cases of patents held in trust, have nothing to do with licenses. In any event, once the license ceases by its terms, any relation of trust would cease.

22. "Where defendants, who are themselves innocent of any act of wrongdoing, are shown by the pleading to have acquired the legal title to property, it is incumbent upon a plaintiff, seeking to establish a superior equitable title, to plead and prove that the defendants are not innocent purchasers for value. In this respect the rule differs from the case where an innocent purchaser for value seeks to establish a superior equitable title against the holder of the legal title, in which case the burden of pleading and proof is on the one asserting his rights as a bona fide purchaser.

* * *

"The rule of pleading, and the distinction between the cases of plaintiffs relying on a legal and an equitable title, is elaborately discussed in *Bell v. Pleasant*, *supra*."

the patent and that the Generator Company's only interest had been merely that of a license *long ago* expired. The first time was in the Alameda suit, where the complaint alleged just that. Since the Generator Company was a party to that complaint, *this was a representation by the Generator Company to Heinz*. This also was adjudicated by the judgment thereafter entered. Therefore, the very least that would be necessary to charge Heinz with notice would be something thereafter occurring. But no such occurrence is claimed.

The second time was in the contempt proceedings. While the Generator Company was not a party to these proceedings, *it knew of them while they were going on and knew that Owens was prosecuting them for his own benefit* (see p. 18, *supra*). if it wished to put Heinz on notice that it still claimed an interest, despite the 1944 judgment and despite Owens' assertion that the patents were his, *it should have so advised Heinz*. It did not do so. *There was no duty on Heinz to inquire behind the judgment*; the duty was on the Generator Company to notify Heinz, *if it claimed an interest despite its representations in the complaint and despite the adjudication*. But, as the Generator Company has admitted (R. 20, 79; Admission to 33):

“[A]t no time after the rendition of the judgment of which Exhibit 2 hereto is a copy did any of the plaintiffs advise H. J. Heinz Company that Owens Generator Company, Inc. or any of the plaintiffs herein still had or claimed to have any license under, or interest in, either said Patent 2,089,412 or Patent 2,236,153”.

In the face of these cardinal facts, appellants' contentions evaporate.

They argue (Br. 49) that the Alameda findings gave notice to Heinz of the claimed equity because they found that “Generator Company had ‘the exclusive license to manufacture, sell, install and operate vinegar generators of the type covered by the said

patent owned by plaintiff Charles H. Owens' (Finding V, Tr. 209)." This is an incomplete and misleading quotation of Finding V. The findings were made in December 1944, and what Finding V said was (R. 209):

"During all of the year 1940 and the year 1941 plaintiff Owens Generator Company, Inc., by a written agreement between plaintiff Charles H. Owens and plaintiff Owens Generator Company, Inc., was the holder of the exclusive license to manufacture, sell, install and operate vinegar generators of the type covered by the said patent owned by plaintiff Charles H. Owens * * *."

That is, it found that *during a prior period of time, then elapsed*, the Generator Company *had been* an exclusive licensee. But it was found and adjudicated that Owens was the owner.

Appellants next try to liken this case to that of a person who pays a few dollars to a stranger on the street for a diamond ring and therefore should suspect that the seller is a fence or a thief. They argue (Br. 49-51) that Heinz paid so little to Owens in its 1954 settlement with him as to be evidence of guilty knowledge. Heinz paid Owens \$250,000—a very large sum of money. Appellants try to minimize this by preposterously claiming that Heinz received values aggregating \$947,266.00. They make up this sum by saying that Heinz received a release of civil damages in excess of \$375,000, relief from an order requiring it to destroy \$160,000 worth of generators and release of \$526.00 per day from March 24, 1952 to May 15, 1954. But the judgment in the contempt proceedings for \$375,000 damages had been annulled by the Supreme Court of California in *H. J. Heinz Co. v. Superior Court*, 42 C.2d 164, 175, 176, 266 P.2d 5 (1954). Whoever wished to claim damages was relegated to a new suit in which he would have to prove both infringement and damages, with Heinz entitled to a jury and an appeal, "neither of which", as the Supreme Court said, "had been accorded * * * [Heinz] in this [the con-

tempt] proceeding" (*Id.* at p. 175).²³ Similarly, the \$526 per day is a fictitious figure; it is a cavalier projection into the future, after the date of the contempt order, of supposed damages. But the whole basis of the award had been annulled by the Supreme Court. As for the order to destroy the generators, it was not final but had been brought before the United States Supreme Court in hot contest and had already been stayed in that Court (see p. 12, *supra*).²⁴

The absurdity of appellants' argument is pointed up by their effort to add another \$195,000 (Br. 50), which, they blandly say, was the value which the Generator Company had placed on the patents. The only basis in the record for that statement is the fact that the Generator Company's income tax return for 1938²⁵ had listed as its assets "patents" with a figure of \$195,252.00 (R. 256). In 1938 the patent had a life of 16 years to go. In May 1954 it had a life of only 2½ months. In 1938 the Generator Company was in the first flush of enthusiasm of a new company formed to exploit a patent. By 1954 it had been defunct for 13 years; only two generators had ever been sold, one in 1937 to Frank and the other in 1940 to Heinz, and the Generator Company had not made any profit on either (R. 90, 139; Admissions to II-5, 7, 9, 11). In the tax return of each year *after* 1938, no patents, no assets, no values are listed (R. 295-306). To say that the Generator Company's own valuation in 1938 is evidence of any value at all in 1954 is naive.

Appellants assert (Br. 51) that Heinz joined "with Owens in stipulating 'that the facts stated in the foregoing motion are

23. Moreover, the award had been as damages to Owens, personally.

24. Furthermore the order of destruction was an attempted vindication of the Alameda Court's authority and not compensation to any private party for property rights.

25. Which Heinz knew nothing about until the hearing on its motion for summary judgment in the present case.

true' in support of a false representation 'that the license from plaintiff Charles H. Owens to Owens Generator Company, Inc. was terminated in 1945 and said Owens Generator Company, Inc. has not had any interest in any of said patents since then * * *.' The reference is to the joint motion of Heinz and Owens to the Alameda Court on May 17, 1954 to dissolve the prior injunction and modify the judgment (R. 261, 263). Appellants' quotation from the motion is misleadingly abbreviated. The statement in the motion was 'that the license from plaintiff Charles H. Owens to Owens Generator Company, Inc. was terminated in 1945 and said Owens Generator Company, Inc. has not had any interest in any of said patents since then, *as found by this Court in that certain 'Interlocutory Order' of July 13, 1951*' (R. 262). This was not a misrepresentation, for the Interlocutory Order had found (R. 38, Para. II) that the Generator Company had had an exclusive license from Owens but

"* * * said exclusive written license was fully terminated and cancelled during the year 1945, and ever since said termination and cancellation plaintiff Charles H. Owens had been and now is the sole owner and holder of said letters patent, and at no time since that cancellation has any person, firm or corporation held or owned, or does now hold or own, any right or license of any kind or character to manufacture, sell, maintain or operate vinegar generators of the type covered by said letters patent owned by plaintiff Charles H. Owens."

Thus Heinz merely called attention of the Alameda Court to what it had already found *against* Heinz in litigation which Heinz had vigorously litigated up to the United States Supreme Court before settling.

Moreover, appellants' argument is pointless. The essential and dominant fact is that, *prior to the time of the 1954 settlement* between Heinz and Owens, the Generator Company's interest had ceased, *the Interlocutory Order so told Heinz*, and whether it had

ceased by the end of 1941 or in 1945 is of no moment. A court order against Heinz in 1951, telling it that Owens was and had been the *sole* owner for years, cannot be twisted into notice that Owens was *not* the sole owner.

Appellants next argue that Heinz knew that Owens had no right to deal with the patents without the Generator Company's consent (Br. 52) because the Alameda judgment invalidated the 1941 license, among other reasons, for lack of authority from the Generator Company to Owens to execute it. But at the time of that license the Generator Company still had an exclusive license, and the very same judgment held that the Generator Company's license was no longer in effect (see pp. 26-29, *supra*).

Appellant's final argument (Br. 53, 54) is that because the Alameda Court found Heinz guilty of obtaining a license from Owens in 1941 by misrepresentations, it must be deemed congenitally sinful. But one may not infer fraud on B from a different fraud on A thirteen years earlier.²⁶

Appellants cite numerous cases about notice and copiously quote from them in a 24-page appendix. But appellants admit that none involved facts like those here (Br. 48), and none is remotely in point. Two do not even involve questions of notice

26. Such an argument flies in the face of the presumptions of innocence of a crime or wrong (see Cal. Code Civ. Proc. § 1963(1)) and "of fair dealing which is tantamount to the presumption of innocence in criminal cases", *Pinney & Topliff v. Chrysler Corp.*, 176 F. Supp. 801, 803 (S.D. Cal. 1959, Yankwich, J.). As said in *United States v. Wiggins*, 14 Pet. (39 U.S.) 334, (1840) at p. 348: "and although any number of frauds should be established upon him, still, if the particular act * * * be not shown to be tainted with fraud, it cannot be affected with other frauds." Other frauds may be shown only if contemporaneous or, at most, nearly so, *Cohn v. Mulford*, 15 Cal. 51 (1860).

Appellants add that Heinz was found in the contempt proceedings to have violated the injunction. Since the Generator Company was never a party to the contempt proceedings (see p. 11, *supra*), it cannot invoke a finding therein as evidence of any fact found. Moreover, no finding in the contempt proceedings became final, for the case was still in the appeal process when all orders were vacated and annulled "as if the same had never been made" (Para. 4, R. 266).

of an equity to a purchaser of the legal title.²⁷ In three the patentee, holding in trust for another, transferred the patent to a firm which he organized, and of which he was a director, officer, manager, or partner, so that his knowledge was the firm's.²⁸ In three others the purchaser saw with his own eyes, at the very time he took assignment of the legal title, that the patented process was actually then being used by and in the plants of the corporation which was the equity claimant, a fact sufficient to put him on notice that the user had an interest in the patent.²⁹ In several other citations

27. *Hamilton v. Kingsbury*, 4 Fed. 428 (N.D. N.Y. 1880) simply held that A, having sold property to B, transferred nothing to C by a subsequent sale of whatever interest he then had because he had nothing left to sell, there being no applicable recording statute requiring recording of the first sale. *L. A. Young Spring & Wire Corp. v. Falls*, 307 Mich. 69, 11 N.W. 2d 329 (1943) was a case where an employee of the plaintiff made an invention belonging to plaintiff under his employment and, learning of this, high executives of plaintiff conspired to have another person obtain a patent on the invention for their personal benefit, suppressing from the company that the invention had been made by its employee.

28. *Continental Windmill Co. v. Empire Windmill Co.*, 6 Fed. Cas. 396 (No. 3142) (N.D. N.Y. 1871); *New Marshall Co. v. Marshall Engine Co.*, 223 U.S. 473 (1912). Similar is *Ambler v. Whipple*, 20 Wall. (87 U.S.) 546 (1874), where one partner in developing an invention excluded the other from the shop and brought in another as partner in his place; the new partnership had all the knowledge of either partner.

29. In *Auburn Button Co. v. Sylvester*, 72 Hun. 498, 25 N.Y.S. 237 (1893), Sylvester was long the superintendent of plaintiff's plant where the patented machinery was used and bought the patent although he suspected that his employer had some interest in it. In *Stanton Mfg. Co. v. McFarland* (N.J. Ch.), 30 Atl. 1058 (1895), the purchaser of an improvement on a patent knew that his assignor was a member of a company which manufactured the patented article. In *Daily v. Universal Oil Products*, 76 F. Supp. 349 (N.D. Ill. 1947) the purchaser not only paid the patentee in stock issued to him as "trustee" but negotiated the purchase in the office of Sunset Oil Company, knowing that the patentee was its president and that Sunset possessed the patents and was currently and successfully using the patented process in two of its plants, and the file wrapper and the documents in the patent office, which the purchaser examined, showed that the process had been developed and used in Sunset's plants (pp. 361, 362). Incidentally, the findings, judgment and opinion in the *Daily* case were later withdrawn and vacated, *Daily v. Universal Oil Products Company*, 79 U.S.P.Q. 258 (1948).

the very instrument of transfer from the patentee to the purchaser informed him of possible rights of another.³⁰ Three other citations involved oral statements by the transferor to the transferee at or before the time of transfer sufficient to inform it of the probable equity of another.³¹ The remaining two citations are likewise not in point.³²

30. *Prime v. Brandon Mfg. Co.*, 19 Fed. Cas. 1324 (No. 11,421) (D. Vt. 1879); the very deed transferring the legal title stated the source of the title to be a described conveyance of certain patents "now in use by the Brandon Manufacturing Company", the claimant of the equity. In *Jonathan Mills Mfg. Co. v. Whitehurst*, 72 Fed. 496 (6 Cir. 1896), one of the instruments in the chain of title, recorded in the patent office, recited that "said patent [is] now supposed to be held by the Smith Purifying Company, or its assigns" (p. 497), Smith Purifying Company being the claimant of the equity.

31. *Thompson v. Automatic Fire Protection Co.*, 211 Fed. 120 (2 Cir. 1914): The transferor told the transferee that Thompson had forced him to assign other patents, and that he preferred to keep this particular patent away from Thompson but felt an obligation to offer it to him. *National Cash Register Co. v. New Columbia Watch Co.*, 129 Fed. 114 (6 Cir. 1904): Patterson, the purchaser's officer, had theretofore negotiated with Neer, Kelly and Reynolds to buy several patents in which they had equal interests. Thereafter he bought, from Neer alone, a patent which was an improvement of the foregoing and "The character of its improvement was in itself adapted to recall the information he had received when Neer's earlier machine was offered to him" (p. 119). This was notice that Kelly and Reynolds might have an interest.

32. *Electric Storage Battery Co. v. Gould Storage Battery Co.*, 197 Fed. 745 (W.D. N.Y. 1912); when plaintiff took an assignment of an invention he knew that his assignor had already assigned a similar previous invention by a recorded instrument which covered the broad principles underlying the second invention.

Kittle Mfg. Co. v. Davis, 8 C.A. 2d 504, 47 P.2d 1089 (1935): The basis of Atkins' possible knowledge of Kittle's rights to manufacture a bed invented by Davis was that Atkins was president of a company in Chicago which handled beds made by Kittle and knew that Kittle was about to come out with a bed called the "Davis Lightweight Bed" of which Davis claimed to be the inventor.

II.

EVEN IF THE GENERATOR COMPANY HAD AN INTEREST IN THE PATENTS IN 1954, IT CANNOT RECOVER FROM HEINZ

For the reasons discussed, the Generator Company ceased to have rights in the patents long before 1954, at least vis-a-vis Heinz. But even were the fact otherwise, appellants could not recover in this action against Heinz.

A. Nothing can be recovered under a constructive trust theory.

Appellants' "whole theory of the case" is a "constructive trust" theory, that Owens sold corporate assets to Heinz upon which appellants seek to impose a constructive trust. So appellants told the court below at the Pre-Trial Conference (R. 183, 188), and so they state now (Br. 1, 4, 30).

But a suit to impose a constructive trust must have a *subject*. As said in *Mandeville v. Solomon*, 33 Cal. 38 (1867) at 44:

"It is as necessary in establishing and enforcing such a trust that there should be trust property as that there should be a trustee and *cestui que trust*; and indeed the relation of trustee and *cestui que trust* cannot exist or be declared in cases of implied trust, *in the absence of a subject matter to which the alleged trust relates*. The plaintiff must allege that the defendant holds the title or some interest *in certain property* which it is inequitable for him to enjoy as against the plaintiff, for that is the subject matter of the action, and in its absence there is nothing which the Court can order to be transferred to him."

If the patents still existed, it might be argued that the person in whose name they stand of record could be ordered to assign them to whomever is the equitable owner. *But both patents have terminated, the first in 1954, long before the suit was filed, and the second in 1958, shortly afterwards.* Consequently, as said in *Mandeville v. Solomon*, *supra* at 44-45:

"It will be of no value to the plaintiff if transferred to him, and the Court will therefore refuse to order so vain a thing as the transfer of the undivided half of nothing."

Appellants' constructive trust theory is also disposed of by the single obvious question: What corporate assets did Owens turn over to Heinz and Heinz "take" or "intermeddle with"? (Br. 4.)

The only "assets" Heinz obtained from Owens in the 1954 settlement were such rights as *he* had in the patents. It paid nothing to anyone to purchase any rights the Generator Company may have had in any patents. *If* it had any, Heinz simply did not obtain them by the assignment from Owens. Not only did Owens' assignments purport to transfer only what Owens had,³³ but even if they had purported to transfer more than Owens' interest, they could not possibly do so. It is elementary, negotiable instruments apart, that a seller can transfer no better title than he has, *Siebenhauer v. Bank of California Nat. Assn.*, 211 Cal. 239, 241, 294 Pac. 1062 (1930), and this is as true of patents as anything else, *Waterman v. Mackenzie*, 29 Fed. 316, 317 (S.D. N.Y. 1886).³⁴

33. The assignment of the first patent begins:

"WHEREAS, CHARLES H. OWENS desires to transfer and assign to H. J. HEINZ COMPANY, a Pennsylvania corporation, *all his right, title and interest* in and to United States Letters Patent No. 2,089,412 issued August 10, 1937 to said Charles H. Owens covering a vinegar generator." (R. 426)

Then after the words of transfer it proceeds with the following explanation: "the same to be held and enjoyed by the said H. J. Heinz Company, its successors and assigns, for its own use and behoof, and for the use and behoof of its successors and assigns, to the full term for which the Letters Patent have been granted, *as fully and entirely as the same would have been held and enjoyed by Charles H. Owens had this assignment and sale not been made * * *.*"

The assignment of the second patent is in the same form (R. 423).

34. "On the sixteenth of April, therefore, when Sarah E. Waterman assigned all her right, title, and interest to the complainant, she had nothing to assign which could at all change the legal *status* of the parties. She could not vest a clear title to the patent in the complainant, for the obvious reason that she had previously disposed of it, and did not own it."

This is not a case where Heinz received something physical, or tangible, or concrete, like real property, chattels or money. A buyer into whose possession tangible property passes may, in proper circumstances, be liable to the true owner, not by virtue of taking a deed or a bill of sale from one who lacks title, but by virtue of exercising dominion over the physical property. But a patent is only an *intangible* right conferred by the United States to exclude the rest of the world from exercising an invention. *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933). As described by Justice Holmes, "A patent is property carried to the highest degree of abstraction—a right in rem to exclude, without a physical object or content." *Holmes-Pollock Letters* (Harvard University Press, Cambridge, 1941), p. 53. A transfer of a patent is nothing but the transfer of a right to exercise an invention without being liable to the assignor for infringement, plus the right to the help of the law in excluding others. An alleged transfer by one who does not possess this intangible right passes nothing whatever. Thus, if the Generator Company had an interest in the patents, Heinz did not get the right to exclude it or others or receive any protection against an infringement suit by the Generator Company if Heinz should exercise the invention covered by the patent.

It is not claimed that Heinz prevented the Generator Company from exercising any rights under the patents to make, sell or use generators. It is not claimed that the Generator Company ever tried to exercise any such rights, or that Heinz sought to prevent it from doing so. Consequently Heinz ousted the Generator Company of nothing.

This disposes of appellants' assertion that Heinz's "inter-meddling" with properties of the Generator Company imposed "losses" (Br. 30). Since the Generator Company made no effort to exercise the patents, and was not prevented from doing so, it suffered no losses.

Finally, appellants seem to talk about imposing a trust on

"profits". But there were no "profits" flowing from the assignments. *It is not claimed that Heinz used the patents afterwards.* As we have seen (p. 20, *supra*), appellants have disclaimed that this is a suit for infringement, and there is no suggestion in the complaint that Heinz exercised the patents after it obtained legal title to them, or that anyone else wished to exercise them and was prevented by Heinz from doing so or paid anything to Heinz for the privilege.³⁵

B. Appellants cannot base recovery on the fact that the Alameda Superior Court annulled its injunction.

One of appellants' mysterious claims is that Heinz "inter-meddled with the * * * judgment" of the Alameda Court of 1944 (Br. 29), that the Generator Company "jointly owned the judgment" (Br. 39), which "became itself a property right" of the Generator Company (Br. 32), and that Heinz somehow "destroyed" it (Br. 64) when the Alameda Superior Court in May 1954 modified that judgment by vacating the injunctive provisions *nunc pro tunc* as of the date of original issuance.

There are at least three reasons why the Generator Company has no rights arising from vacation of that injunction.

35. Nor have appellants ever contended in this suit that Heinz infringed prior to May 1954. In the contempt proceedings brought by Owens, on his own behalf alone, he charged that it infringed *his* rights, but in carrying the contempt proceedings to the United States Supreme Court Heinz was urging that the State Court had no jurisdiction to try such an issue. The settlement between Heinz and Owens precluded a decision of that question by the highest court in the land, and the Alameda court set aside all its orders in the contempt proceedings as if they had never been made (see R. 266). If appellants had even wished to charge Heinz with infringement, they would have had to try the issue *ab initio* in a federal court and establish both that the patents were valid and infringed. The issue of validity had never been tried in any proceeding in the Alameda court, either in the prior case or the contempt proceedings. One of Heinz's grievances that it carried to the Supreme Court of the United States was that it had been denied the right to try that issue. Appellants' counsel are patent lawyers (see Martindale) and doubtless realized that they could never prevail on an infringement charge in a court experienced in such matters. But whatever the reason, appellants did not raise the issue in this case (see p. 20, *supra*).

1. In law no such injunction may be deemed ever to have existed.

Every California court has the intrinsic *power* and *jurisdiction* to vacate its own injunctions at any time for any reason. *Sontag Chain Stores Co. v. Superior Court*, 18 C.2d 92, 95, 113 P.2d 689 (1941). The Alameda Superior Court could have annulled its own injunction on its own motion. Since, therefore, its jurisdiction and power cannot be questioned, the only basis for assailing the exercise of that power would be that it was error, but that could be done only by appeal to a higher California court or by application to the Alameda court itself. No such application has ever been made by appellants (R. 109, 142; Admission to XVI-5a). Just as "a Federal court lacks jurisdiction to vacate or set aside judgments or decrees of state courts", *Jones v. Medlock*, 180 F.2d 658, 661, 662 (10 Cir. 1950), *cert. den.* 340 U.S. 819; *Broussard v. Southern Cotton Oil Co.*, 117 F.Supp. 81, 82 (W.D. La. 1953), *a fortiori*, when a state court sets aside its own orders, a federal court, not in the chain of appellate review, cannot reinstate them. So far as this Court or the court below is concerned, the injunction, having been annulled *nunc pro tunc* as of the date of its issuance, never existed.

2. Appellants have no interest which the injunction protected.

But quite apart from the foregoing, there is no substance to appellants' claim. An injunction is not "property" or "owned". It is a remedy for protection of someone's rights, and only the person whose rights it protects can rely on it.

Appellants' claim to "rights" in the injunction rests entirely on the fact that the Generator Company was a party plaintiff in the Alameda suit. But this ignores the purpose of modern liberal procedures for joinder of claims and parties (see p. 30, *supra*). The Generator Company was a proper party plaintiff to the Alameda suit in order to obtain declaratory relief that it had not agreed, during the period when it was the exclusive licensee, to give, and had not authorized giving, Heinz a general sublicense

(see pp. 7, 29, *supra*). The part of the judgment giving this declaration—i.e., the portion protecting the Generator Company—was not annulled (see fn. 10, p. 13, *supra*). At pages 8, 9 *supra* we quoted the language of the Alameda complaint which explicitly stated that an injunction was needed and sought to protect *Owens'* rights in the patent and to safeguard him "in utilizing the same in the manner most to his interest as owner thereof." It was not sought nor issued for the protection of any right of the Generator Company in the patents.

If a particular plaintiff has no interest in the rights which an injunction is designed to protect, or if the interest ceases, he cannot enforce the injunction.³⁶ Thus, 43 C.J.S. Injunctions § 271, at p. 1034, states:

"However, only those who have a present interest in the right or property protected may institute civil contempt proceedings, that is, the offense complained of must be injurious to the rights of plaintiff in the action * * *."

This was applied in *Popsicle Corporation v. Pearlstein*, 168 S.W. 2d 105 (Mo. App. 1943), where the court said (p. 109):

"Generally speaking, proceedings for contempt to enforce a civil remedy and to protect the rights of parties litigant may be instituted by the aggrieved parties, or those who

36. For example, an injunction against patent infringement, although denominated perpetual or permanent, exists only during the life of the patent and ceases when the patent expires either through expiration of the term for which it was issued or for any other reason. *De Florez v. Reynolds*, 8 Fed. 434, 438 (S.D. N.Y. 1880); *Westinghouse v. Carpenter*, 43 Fed. 894 (S.D. Iowa 1888); *Chapin v. Friedberger-Aaron Mfg. Co.*, 158 Fed. 409 (3 Cir. 1907); *Hughes Tool Co. v. A. F. Spengler Co.*, 73 F. Supp. 154 (W.D. Okla. 1947). Another application of the principle may be found in *Chipman Chemical Engineering Co. v. Reade Mfg. Co.*, 20 F. Supp. 674, (D. N.J. 1937) where an injunction against infringement had issued on a judgment finding certain claims of the patent invalid and one valid. Because the plaintiff thereafter did nothing to disclaim the invalid claims under the disclaimer provisions of the patent law, its patent rights ceased entirely. It was held that plaintiff no longer could enforce the injunction.

succeed to their rights, or some one who has a pecuniary interest in the right to be protected. * * * As for the case of one who relies for his authority upon a pecuniary interest in the right to be protected, such interest must be a present interest, and the offense complained of must be injurious to the rights of the plaintiff in the suit (32 C.J. 504), which obviously could not be the situation in the case at bar, where the Popsicle Corporation had transferred all its rights under its patents long before the commission of the acts by respondents which constituted the basis for complainant's application for a citation for contempt."

If the Generator Company had any interest in the patent at the time the judgment issued in 1944, it ceased to have by March 27, 1945, for, by its own admission, it never thereafter continued in any business (see p. 23, *supra*). In fact, its interest in the patents had ceased before the 1944 judgment. That judgment (1) merely enjoined building and using generators covered by the patents "*owned by plaintiff Charles H. Owens*", and (2) adjudicated that the Generator Company had no interest therein after 1941. Appellants are thus in a dilemma. If the Generator Company and not Owens owned the patent, Heinz was *not* enjoined from making and using any generator thereunder. Conversely, if Heinz was enjoined, it was only by virtue of the fact that Owens and not the Generator Company had the patent.

3. The Generator Company sustained no damages, and Heinz gained no profits from the annulment of the injunction.

Annuling the injunctive provisions of the 1944 judgment worked neither profit nor loss, as may be observed by noting what the legal situation (a) would have been had the injunction remained in effect and (b) what it was after the injunction was annulled.³⁷

37. Appellants seem to insinuate that Heinz gained from the annulment of the order that it pay Owens damages and destroy its vinegar gen-

If it had remained in effect, even one whose rights it was intended to protect could not recover damages from Heinz for its violation, unless Heinz infringed the patents, it being an injunction against infringement. *H. J. Heinz Co. v. Superior Court*, 42 C.2d 164 at 169, 170, 172, 266 P.2d 5 (1954). And appellants disclaim infringement (see p. 20, and fn. 35, p. 46, supra).

Moreover, by May 1944 (when the injunction was annulled), any claim for damages for violation of the injunction had already been barred by the statute of limitations. Such a claim may be asserted only in a civil suit, *H. J. Heinz Co. v. Superior Court*, supra, at p. 175, in which the period of limitations is 4 years, either under Cal. Code Civ. Proc. § 337 (1) or § 343, and begins to run *from the first invasion of the party's rights* and is not extended by continuation of the invasion. *Italiani v. Metro-Goldwyn Mayer Corp.*, 45 C.A. 2d 464, 114 P.2d 367 (1941); *Thompson v. California Brewing Company*, 150 C.A. 2d 469, 310 P.2d 436 (1957); *Campbell v. Scholl*, 129 C.A. 2d 300, 376 P.2d 834 (1954); *Judson Pac. M. v. Thew Shovel Co.*, 127 C.A. 2d Supp. 828, 830, 275 P.2d 841 (1954). Here the generators which constituted the claimed violation of the injunction were built and their use was begun prior to the commencement of the contempt proceedings in September 1949 (Complaint, Para. 26-28; R. 7, 8), more than four years prior to the settlement of May, 1954.

Conversely, eliminating the injunction left untouched the underlying rights the injunction protected. To recover for violation of the injunction one would have to prove violation of those rights,

erators. But the annulment of the order for damages had already been effected by the California Supreme Court in *H. J. Heinz Co. v. Superior Court*, 42 C.2d 164, and the destruction order had been both entered and annulled in the contempt proceedings. Appellants have no standing to complain of that, since (1) the Generator Company was not a party to the contempt proceedings (see p., supra); and (2) the contempt orders had been made upon an adjudication that any rights ever possessed by the Generator Company had expired at a date long prior to the building of any generators by Heinz (see p., supra).

i.e., patent infringement. But if infringement were claimed and proved, the injured party could still recover the same damages whether there was a superimposed injunction or not.³⁸

Thus, no matter how the subject is examined, appellants can find no monetary significance in the annulment of the 1944 injunction. The subject is either a red herring or an attempt to have a federal court award a money judgment against Heinz on the basis of a state court injunction for violation of which the state court itself could not grant any such award. *H. J. Heinz Co. v. Superior Court*, *supra*.

C. Nor can appellants recover because Heinz paid money to Owens.

Appellants have hinted and nibbled at many diverse ideas, and one seems to be that Heinz's payments to Owens of \$250,000 in the 1954 settlement of its controversies with him gave appellants rights against Heinz. *If* Owens was a fiduciary to the Generator Company, it may be that it can compel him to account for some or all of this sum. That is no concern of Heinz. But appellants cannot ask Heinz to pay a further sum to them simply because it paid something to him.

Heinz paid a sum to Owens for a release of *his claims* and further sums for transfer of *his* interest in the patents. It paid nothing to anyone for a release of claims that the Generator Company may have had, *if* it had any. If the Generator Company had any claims against Heinz, they simply remain unreleased. Because John Doe pays Roe for a release of Roe's claims against Doe does not impose any obligation on Doe to pay something to Smith. Or, because Doe buys from Roe such rights as Roe

38. The only effect of existence of an injunction, apart from jurisdictional questions, is that the court issuing it could impose a fine, payable to the State but not the litigant, to vindicate the court's authority. No private party has a standing to protest if a court concludes that its authority and dignity need no such vindication.

may have had in property imposes no obligation on Doe to pay Smith for any rights Smith may have in it.

Stripped of legalisms, appellants' claim is on a par with a claim that the country bumpkin who "buys" the Golden Gate Bridge from a swindler must pay a further sum to the Bridge Authority because he gave the funds to the wrong man.

Daily v. Universal Oil Products Co., 76 F. Supp. 349 (N.D. Ill. 1947), appellants' most frequent citation, confirms what is said above. There Sunset Oil Company was the equitable owner of certain patents issued to Dubbs, who owned 750 shares of its stock, plaintiff's predecessor owning 250 shares. While Sunset was still in existence and in business, and therefore still the owner or licensee of the patents under the terms of the license agreement, and while Dubbs was still its president, he purported to assign the patents to Universal for a consideration of 300 shares of its stock, which he received as "trustee". The certificate recognized that Dubbs held it, not personally, but as *trustee*. Nine years after his death his widow purported to sell the stock to Universal's president. In permitting the transfer of the stock on its books, Universal issued a new certificate which said nothing of the trust and allowed an ultimate purchase by a *bona fide* purchaser. The court did not hold Universal liable to the plaintiff because it had paid consideration, i.e., stock, to Dubbs for the patents. The court noted that Universal had committed no wrong and was liable to no one by virtue of what had happened *up to the point* when it took action to destroy the trust by cancelling the shares which had been issued to Dubbs as trustee and issuing a new certificate in the name of his widow personally.³⁹

39. The court said:

"plaintiff * * * contends that Sunset * * * owned the patents * * * and seeks to ratify the transfers of the patents to Universal * * *" (p. 360).

"Universal * * * was formed and Dubbs traded the three tenths in-

D. The Generator Company was put to the election of affirming or disaffirming the assignments to Heinz, and it affirmed.

The *Daily* case points to another defect in appellants' case. As we saw at pp. 34, 35, *supra*, the interest of the Generator Company, if any, was solely an equitable one. When the legal owner transferred the patents, the equitable owner (if such it was) had the right to affirm the transaction as made on its behalf or to disavow it.

If it affirmed, it could seek an accounting of the proceeds from Owens, as its agent. But an affirmance would be a ratification of the transaction as a transfer of its interest to Heinz. Ratifying, it could seek nothing further from the transferee.

Conversely, if it disaffirmed, then, if the Generator's equity was not cut off by lack of notice, the settlement would be as if it were non-existent so far as the Generator Company was concerned. It would take nothing from the Generator Company and would confer nothing on it. The Generator Company would remain the owner of whatever interest it had, if any, but it would have no claim against Heinz by reason of the settlement between Heinz and Owens.

terest for three hundred shares of the company's stock. He expressly acknowledged the trust in regard to the three hundred shares when the certificate was issued to Jesse A. Dubbs, trustee. *To this point, Universal and its officers may not have been subject to criticism * * ** This is the deal which plaintiff has asked the Court to confirm and recovery, if any, must be limited to that.

"Turning to plaintiff's contention that Universal * * * and its officers are liable to the plaintiff because they participated in the violation of a trust when the company transferred the three hundred shares from the record holder, Jesse A. Dubbs, trustee * * *." (p. 367, 2nd col.).

"*At this point*, Universal * * * participated in the destruction of a trust of which it had actual knowledge and in the conversion of the subject matter of the trust. The company and its officers knew that the original certificate for the three hundred shares was issued to Jesse A. Dubbs as trustee * * * Without lifting a finger to ascertain the real owners of the three hundred shares of stock, they allowed them to be converted by issuing a new certificate for the stock to men who were strangers to the stockholders of Sunset * * *." (369, 1st col.)

The fact is that the Generator Company did *affirm* the transaction, and in two ways. We call attention to the facts stated in item (t) on p. 19, *supra*. Tobin testified that he did not bring suit in 1954 because he assumed that the Generator Company "was going to share in that check" (for \$250,000) which Owens received from Heinz. A readiness to accept from Owens a share of the settlement proceeds, so long as he thought Owens would share, is an affirmation of the settlement. *It relegates appellants to a remedy, if any, against Owens and Lowenthal alone.*

Secondly, when the Generator Company learned of the 1954 settlement, it not only had the right, if it claimed any interest in the patents, to disaffirm any supposed transfer of its rights, but it was *incumbent* on it to do so promptly. One may not postpone the exercise of a right of disaffirmance until the eve of the lapse of the statute of limitations. The controlling law is settled in a comprehensive opinion in *Leeper v. Beltrami*, 53 C.2d 195, 211, 347 P.2d 12 (1959). It was there held that in any suit in which, *however the theory is stated or however phrased*, the plaintiff must disaffirm for any reason in order to recover, he must comply with the rules requiring rescission to be *prompt*. There the suit was based on duress. Although held not barred by the statute of limitations, the action was held barred, on demurrer, for failure to rescind within *two* years. And failure to disaffirm promptly is, in law, affirmation and ratification. In *Sogg v. Harvey*, 134 C.A. 2d 116, 121, 285 P.2d 104 (1955), it was said:

"The transaction is ratified by failure to rescind promptly after discovery of the facts which entitle the party to rescind."

At pages 18, 19, *supra*, we have shown the following facts: A year before Owens' settlement with Heinz in May 1954, appellants knew that Owens was having litigation with Heinz. In January or February 1954, several months before the settlement, Tobin was told that Owens was winning this litigation. As early as June 1954 Tobin was told that Owens had settled, and Tobin

told others that the Generator Company should sue to assert its rights. During all this time no claims were asserted against Heinz, and no effort was made to communicate with Heinz or Owens. Appellants not only delayed suing until June 1957; they failed even to give notice of disapproval of the 1954 transaction, which could have been done at once and without an attorney. This failure was fatal within the direct holding of *Leeper v. Beltrami*, *supra*.

III.

THE CASE IS BARRED BY THE STATUTE OF LIMITATIONS AND LACHES

Finally, we submit, appellants' case against Heinz is barred by lapse of time. The basic relevant facts have been set forth in the Statement of Facts at pp. 13-20, *supra*.

A. The statute of limitations.

1. The statute began to run long before the settlement of 1954.

The foregoing enumeration of facts shows that

- (i) basic elements of any possible case were already barred by statutes of limitations long prior to 1954; and
- (ii) the alleged fiduciary—Owens—had openly repudiated any fiduciary obligation to the Generator Company and any supposed rights of the Generator Company, to its knowledge, long before 1954.

While appellants argue that Owens was a fiduciary, it is elementary that where a fiduciary repudiates the relation or denies rights or claims of the alleged beneficiary to the latter's knowledge, the beneficiary is no longer excused from the duty of acting to protect its claims, and the statute of limitations begins to run. *Bennett v. The Hibernia Bank*, 47 C.2d 540, 559, 560, 561, 305 P.2d 20 (1956).

(a) The second patent.

Appellants' claim to the second patent is a claim of an equitable interest, whether resting on a document unrecorded in the patent office or on the supposed fiduciary relationship (see pp. 33, 34, *supra*). The fact detailed in item (a) on p. 14, *supra* show that Owens *never* recognized any interest of the Generator Company in or to the second patent, and that any such claim was *repudiated and denied* by Owens to the Generator Company's knowledge *immediately* when the application for the patent was filed in 1938, again when the patent was issued in 1941, and *continuously thereafter*. This was the reason Tobin became and remained antagonistic to Owens ever since 1938. From the moment the patent issued Tobin believed that the Generator Company should sue Owens to establish its claims to or in the patent, but it never did so. Tobin and the Company not only knew of Owens' repudiation in 1938 and 1941 of any interest of the Generator Company, but they also obviously knew of it again when the judgment in the Alameda action adjudicated that Owens owned *both* patents. The very filing of that action by Owens was itself repudiation of any right in the Generator Company. *Bennett v. The Hibernia Bank*, 47 Cal. 2d 540 at 560, headnote 22. The statute of limitations ran against any attempt to impress an equitable title on Owens' second patent in 4 years, and thus barred any such claim, at the latest, in 1945.

(b) The first patent.

The difference between the first and second patents is that while Owens never recognized any interest of the Generator Company in the second patent, the Generator Company originally had, and was recognized as having, an interest in the first. But by letter in 1942 Owens repudiated that interest. In 1943 the Generator Company knew that in litigation to which it was a party Owens again repudiated any interest of it. It knew by the adjudication

of 1944 that he alone owned the patent. It knew by his letter of 1945 that he repudiated every conceivable connection with the Generator Company. Thereafter 13 years elapsed, with the Generator Company doing nothing to assert any rights,—uninterested, though aware of Heinz's new litigation with Owens.

The Generator Company was under a duty of prompt action which was especially rigorous in view of the termination of its charter. Under New Jersey law (N.J. Stat. tit. 14, ch. 13, § 5) on dissolution the directors became liquidators empowered to settle the affairs of the corporation. Appellants Wittmer and Tobin, as directors, thus became liquidators of the Generator Company in 1943.⁴⁰ It is in this capacity that they filed this suit in 1957, and it would have been just as easy for them to have filed suit against Owens years ago. The statute did not merely confer on them the power to settle the affairs of the corporation, collect its assets and divide them among the stockholders. The conferred power correlatively imposed the "equal duty" to do so. *Aetna Cas. & Surety Co. v. International Re-insurance Corp.*, 117 N.J. Eq. 190, 175 Atl. 114 (1934); *Stuart v. Chaney*, 78 Colo. 421, 242 Pac. 638, 639 (1925). Directors of a dissolved corporation are chargeable for neglecting to collect its assets, *Hewson v. Chas. P. Gillen & Co.*, 142 Atl. 250 (N.J. Eq. 1928). In *McClean v. Bradley*, 282 Fed. 1011 (N.D. Ohio 1922), involving a defunct New Jersey corporation whose assets consisted of patents, the franchise of the corporation was revoked by the State of New Jersey, as here. Thereupon, the court said:

40. It is on the basis of this very New Jersey statute that appellants (Br. 32) claim that Owens became one of the statutory trustees to take possession of the company's property and liquidate. But, as said in *McClean v. Bradley*, 282 Fed. 1011 (N.D. Ohio 1922) (involving a New Jersey corporation and the New Jersey statute), the surviving directors are not trustees in the sense that limitations and laches will not run in their favor. Lowenthal's letter to Lasher of May 14, 1943 (see p. 15, *supra*), written several months after the corporate dissolution, was a repudiation by Owens of any duty to act as a liquidator, for it said that Owens "has no intention whatever * * * of carrying on any further activities on behalf of the Owens Generator Company."

"[B]y the laws of that state the members of its last board of directors * * * became trustees for the settlement and determination of its affairs. It was *their duty* to get in the outstandings, reduce them to cash, pay the creditors, and distribute the balance, if any, to the stockholders." (pp. 1016-17.)

The revocation of the Generator Company's charter on January 19, 1943 brought this section of New Jersey law into operation. *Watts v. Vanderbilt*, 45 F.2d 968 (2 Cir. 1930). *At that moment*, then, a *duty* was imposed on Wittmer and Tobin to act diligently. **They were under the duty of acting promptly in 1943, when the Generator Company had its charter revoked, to collect, realize, and reduce to possession all claims and assets.** While the rule that means of knowledge is equivalent of knowledge is qualified by a proviso that this is so only where there is a duty to investigate, *here, in 1943, was the duty to investigate* imposed by statute. Knowing that Owens was denying all rights of the corporation (see pp. 15-18, *supra*), it was their duty to do everything necessary to protect the corporation. Yet they lay in lethargy for 14 years, doing nothing, *not even recording the patent license of 1938 in the patent office.*

In *Landis v. Saxton*, 105 Mo. 486, 16 S.W. 912 (1891), the corporation had expired in 1875. In 1887 the last surviving director, acting as trustee under a statute similar to the New Jersey statute, sued the former secretary and treasurer to recover a sum of money. The action was held barred by the statute of limitations, even though the secretary was a fiduciary. Said the court (p. 913):

"Again, the cause of action in this cause arose upon the dissolution of the corporation."

We submit that the statute of limitations began to run years ago against suits to impress equities on the patents.

2. Even if the cause of action were held not to accrue until the settlement of May 1954, the statute of limitations ran.

Even on appellants' theory that the gravamen of their suit is the 1954 settlement and that this suit is an action for fraud, they are barred. The applicable statute would then be Cal. Code of Civ. Proc. § 338(4), and the statutory period 3 years after "discovery". Since tolling of the statute until discovery is an exception to the basic rule, it is elementary that the *burden* of *proving* lack of discovery earlier than 3 years is upon the party asserting lack of discovery. *Heffron v. Duggins*, 115 F.2d 519, 520 (9 Cir. 1940); 31 Cal. Jur. 2d, Limitation of Actions § 257 at p. 674; *Merchants Ice etc. Co. v. Globe Brew. Co.*, 78 C.A. 2d 618, 623, 177 P.2d 963 (1947).

The settlement was in mid-May 1954. This suit was filed, over 3 years later, June 18, 1957. Tobin testified that he learned of the settlement on June 24, 1954. This fell short of 3 years *by only 6 days*. On this 6 days and on Tobin's testimony of when *he* learned, appellants hang their hope of avoiding the statute of limitations. But this testimony falls far short of discharging the burden or even raising an issue of fact. In the first place, Wittmer was as much a liquidator of the defunct company as Tobin, and appellants have remained secretive about when Wittmer learned. In the second place, the liquidators act for the benefit of the stockholders, the principals and real parties in interest and the equitable owners of the assets, *State v. Fidelity Union Land Co.*, 25 N.J. 387, 136 A.2d 636, 641 (1957), and appellants have remained silent about when the stockholders learned. Indeed, as we have seen (p. 18, *supra*), Tobin's testimony was that he learned of the settlement from Jack Revere, who was Tobin's cousin, the son and nephew of the Elizabeth Revere and Theresa McCurry who had put up \$4000 of the only money—\$5000—invested by *any* stockholder, and for whom Tobin acted as agent in the company's affairs. Jack Revere learned of the fact while in New Jersey (R. 476, 477). Thereafter he came west to Colorado

Springs (R. 468, 476), spent several days visiting people (R. 469), and it was while there that he told Tobin (R. 468). The burden was on appellant to show that the Reveres had not learned of it more than 6 days before. But appellants, though required by the motion for summary judgment to produce evidence on the subject, remained silent.

B. Laches.

While the statute of limitations requires lapse of exact periods of time, laches is not concerned with a fine count of days,—6 more or less are of no significance. When a claim is in equity, limitations will bar it if the precise time stated in the statute has elapsed, but laches will do so even though less than the precise time has elapsed.

Since laches is available on demurrer, *Warfield v. Anglo & London Paris Nat. Bank*, 202 Cal. 345, 356, 260 Pac. 881 (1927); *Chilberg v. City of Los Angeles*, 54 C.A. 2d 99, 101, 128 P.2d 693 (1942), it is, *a fortiori*, available on a motion for summary judgment. "Nothing can call a court of chancery into activity but conscience, good faith and reasonable diligence," *Warfield v. Anglo & London Paris Nat. Bank*, supra, at p. 356. Laches often arises from delay less than the statute of limitations, *Warfield v. Anglo & London Paris Nat. Bank*, supra, at pp. 356-357; particularly where action in the nature of rescission is necessary, *Chilberg v. City of Los Angeles*, supra at p. 102 (delay of 2 years, 2 months, 4 days); *Coachella Valley Lumber Co. v. Hollenbeck*, 145 C.A. 2d 722, 729, 303 P.2d 98 (1958) (one year). "[D]elays for much shorter periods than a year have been held to be fatal", *Sogg v. Harvey*, 134 C.A. 2d 116, 121, 285 P.2d 104 (1955). As said in *Wells Fargo Nevada Nat. Bank v. Barnette*, 298 Fed. 689, 692 (9 Cir. 1924):

"In numerous cases laches have been held a bar, where the delay in applying for equitable relief has been less than the time limit of the statute of limitations. * * * In *Baker*

v. Cummings, 169 U.S. 189 * * * it was held that 3 years' delay by the plaintiff, in a case where to his knowledge the defendant *was proceeding to prosecute certain claims as his own*, debarred the plaintiff from proceeding in a court of equity to assert his rights. So in *Patterson v. Hewitt*, 195 U.S. 309, 319 * * * the court observed that in some cases the diligence required is measured by 'months rather than by years,' and that 'a delay of 2, 3, or 4 years has been held fatal.' "

This statement is applicable, since the Generator Company knew for years that Owens was proceeding to prosecute certain claims against Heinz as his own.

Laches does not require *an estoppel* but is addressed to the conscience of the court and rests in its discretion, *Gillons v. Shell Oil Co.*, 86 F.2d 600, 607 (9 Cir. 1936).⁴¹ The doctrine is applied with particular *rigor where the subject matter is not known to have any value until someone by his efforts demonstrates that it has*. It is thus a doctrine often applied in oil or mining ventures. As said in *Hamud v. Hawthorne*, 52 C.2d 78, 86, 338 P.2d 387 (1959):

"It was not until plaintiffs learned of the interest of an oil company in the subject property that they bestirred themselves to ascertain whether such property was worth an effort on their part to reclaim it."

The court there quoted from *Livermore v. Beal*, 18 C.A. 2d 535, 64 P.2d 987 (1937), *cer. den.* 302 U.S. 712, where judgment on demurrer, for laches, was affirmed, the court saying (p. 549):

41. "[T]he appellants have confused the defense of estoppel with that of laches * * *.

"It is well settled, however, that the two defenses are governed by different rules. * * * 'While in many instances the facts that are held to constitute laches are such as would create an estoppel, more frequently they are not. * * * The defense of laches is directed more intimately to the conscience of the chancellor, and whether it shall prevail rests in his discretion.' "

" 'No doctrine is so wholesome, when wisely administered, as that of laches. * * * *It requires of every owner that he take care of his property, and of every claimant that he make known his claims.*' * * * [O]ne is not permitted to stand by while another develops property in which he claims an interest, and then if the property proves valuable, assert a claim thereto, and if it does not prove valuable, be willing that the losses incurred in the exploration be borne by the opposite party. This thought was expressed in one case by the following language. 'If the property proves good, I want it; if it is valueless, you keep it.' "

Appellants' conduct is precisely like that described in *Homestake Mining Co. v. Mid-Continent Exploration Company*, 282 F.2d 787 (10 Cir., 1960), in which, because of a delay of less than 19 months, the court refused to impose a constructive trust for breach of fiduciary obligation, saying:

"Instead of asserting any claimed right, they waited until the enterprise was successful and then swarmed in to recover the windfall which their associate made possible by its skill, ingenuity and daring.

* * * * *

"It is not equity, but injustice, to permit a person to withhold a claim to a mining enterprise and then to reward him with the profits made possible by the action of another." (p. 801).

Aware, for years, of Owens' repudiation of any rights of it, knowing that Owens was pursuing litigation with Heinz, the Generator Company asserted no claims, contributed no finances, ran no risk of liability for costs if the litigation proved unsuccessful, incurred no liability for attorneys' fees, but lay still until Owens' persistence in harassing Heinz with litigation collected a settlement from Heinz, and then waited for still another 3 years.

See also: *Kleinclaus v. Dutard*, 147 Cal. 245, 81 Pac. 516 (1905) (suit to impress a trust held barred for laches on de-

murrer, alleged trustee having "dealt with all property acquired as absolutely his own", p. 250).

Morrow v. Coast Land Co., 29 C.A. 2d 92, 84 P.2d 301 (1938), one of a series of suits to establish an interest in Kettleman Hills oil property based on a claim that Ochsner had acted for the claimants. Ochsner had applied to the government for a prospecting permit *in his own name* in 1920, it was issued *in his own name* in 1921, and assigned by him in 1923, all acts inconsistent with his alleged duty to plaintiffs.

King v. Los Angeles County Fair Association, 70 Cal. App. 2d 592, 596, 161 P.2d 468 (1945), where in a suit by shareholders in a defunct corporation to set aside a transfer of the assets of the corporation to a successor, judgment for the defendant on a demurrer for laches was affirmed, suit having been filed 2 years and 1 month after the event. The court said (pp. 596-597):

"The obligation on the part of these plaintiffs to act promptly if they desired equitable relief against the transfer of the assets is analogous to the duty of one who desires to rescind a contract because of misrepresentation and fraud to give notice thereof promptly. There are many cases in which delays for a shorter period than a year have been held fatal to the right to rescind. * * * Under the circumstances of this case it clearly appears that the plaintiffs waited an unreasonable length of time before seeking equitable relief."

In *Lillard v. Walsh*, 172 C.A. 2d 674, 342 P.2d 82 (1959), a suit to establish a constructive trust was held barred by laches for a delay of less than the period of limitations.

If the Generator Company did not have full knowledge more than three years before suit, it was because it deliberately closed its eyes and its ears, as epitomized in Tobin's testimony. Referring to a visit of the Owenses to his own home in 1946 or 1947, where his wife and the Owenses were engaged in discussion, he said,

"I would put myself in the position that I wouldn't listen."
(R. 491)

Knowing of the litigation between Heinz and Owens, the Generator Company had the duty to follow what was happening. Such is the diligence that men of common prudence would exercise for their own protection. *Beresford v. Horn*, 127 C.A. 2d 89, 273 P.2d 302 (1954). As said in *Phelps v. Grady*, 168 Cal. 73, 80, 141 Pac. 926 (1914):

" 'Parties cannot thus, by seclusion from the means of information, claim exemption from the laws that control human affairs and set up a right to open up all the transactions of the past. The world must move on, and those who claim an interest in persons or things must be charged with knowledge of their status and condition and of the vicissitudes to which they are subject.' "

IV.

ANSWER TO THE CONTENTION THAT SUMMARY JUDGMENT SHOULD BE DIRECTED FOR APPELLANTS

With respect to appellants' further contention that this Court should direct summary judgment for them and against Heinz, our answer may be brief.

1. We have submitted that the judgment should be affirmed.
2. An appellate court, though it reverse a summary judgment for appellee, cannot direct it for an appellant who, like appellants here, had not moved for judgment below. This precise point was settled in *Fountain v. Filson*, 336 U.S. 681 (1949).⁴² See also *Byrd v. Blue Ridge Cooperative*, 356 U.S. 525, 533 (1958). The reasons are obvious: (1): although "defendant

42. Except for one case where an appellate court *affirmed* a judgment upon grounds other than those on which the District Court based it, all appellants' citations (Br. 62-63) pertain to the power of a District Court (not an appellate court) to grant a summary judgment against the party moving for it. In *Fountain v. Filson*, *supra*, the Supreme Court expressly refrained from passing on that question as not pertinent.

may, on his motion, assert that, accepting his legal theory, the facts are undisputed, he may be able and should always be allowed to show that, if plaintiff's legal theory be adopted, a genuine dispute as to a material fact exists." *Walling v. Richmond Screw Anchor Co.*, 154 F.2d 780, 784 (2 Cir. 1946), cer. den. 328 U.S. 870. See also *Hycon Manufacturing Co. v. H. Koch & Sons*, 219 F.2d 353 (9 Cir. 1955). (2) Where no motion for judgment has been made below by appellant, appellee has never been called on to make that showing.

3. Were appellants' legal theory accepted here, many issues of fact would exist. For example, appellants' claim against Heinz requires them first to establish a fiduciary relationship between themselves and Owens and violation of it by him. This issue was never reached by the District Court and remains undecided.⁴³ It involves not only the testimony of Tobin but of his adversaries Owens and Lowenthal (whose depositions have all been taken) and mutual charges and recriminations. Another example is the statute of limitations. We have seen that even on appellants' theory, the effort to escape the bar of the statute of limitations rests wholly on the testimony of Tobin that he learned of the settlement on June 24, 1954, just 6 days within the 3 year period. (See p. 59 supra.) The trial court—the finder of the fact—might well disbelieve Tobin, particularly in the light of all the other evidence. The determination of Tobin's credibility, if it should be material, would lie with the trial court. *Byrd v. Blue Ridge Cooperative*, 356 U.S. 525, 532 (1958).

43. The District Court said: "Whether Owens, as fiduciary of the Generator Co., breached any duty to the company by his actions in the matter is of no consequence in this motion for summary judgment by Heinz." (R. 315)

CONCLUSION

We respectfully submit that the judgment should be affirmed.
Dated: San Francisco, November 6, 1962.

MOSES LASKY
RICHARD HAAS
BROBECK, PHLEGER & HARRISON

*Attorneys for Appellee
H. J. Heinz Company*

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

MOSES LASKY

(Appendix follows)

Appendix

OPINION OF DISTRICT COURT (R. 307)

[Caption omitted]

Order Granting Motion for Summary Judgment

Defendant H. J. Heinz, Company, on June 13, 1960, filed its motion for summary judgment pursuant to F.R.C.P. 56(b). Oral argument on the motion was heard September 23, 1960, and memorandum in support and opposition were filed by the parties subsequently.

From a perusal of the pleadings, affidavits, depositions, answers to interrogatories, admissions, exhibits and the memoranda of counsel, it appears that the case is based upon a theory of constructive trust. It is plaintiff's claim that the Owens Generator Co., (hereinafter referred to as Generator Co.), owned certain assets, particularly two patents, and an injunction. The first patent, No. 2089412, was for a vinegar generator. It was obtained in the name of defendant Charles H. Owens, (hereinafter referred to as "Owens"), on August 10, 1937. The second patent, covering improvements to the generator, No. 2,236,153, was issued in Owen's name on March 25, 1941. The injunction was issued in 1954 and is noted, *infra*.

On March 10, 1938, the plaintiffs Tobin and Witmer and defendant Owens formed the Generator Company and contemporaneously with its formation defendant Owens executed an instrument in regard to the first patent, among other provisions thereof being the following:

"* * * the sole and exclusive right, privilege, and license within the United States to manufacture, sell, install and operate vinegar generators containing the said patented improvement, and any and all improvements thereon, for so long as said [Generator Company] shall continue in business, or to the end of the term for which the said letters

patent, or any extensions thereof, were granted, whichever event shall first occur * * *."

Subsequently, Owens developed the second patent.

During the latter part of 1938 and the early part of 1939, the H. J. Heinz Company became interested in purchasing a vinegar generator from the Generator Co. A purchase was negotiated in 1939. In 1941, Heinz obtained from defendant Owens a written license to build other generators under the first Owens' patent. In 1943 suit was brought by defendant Owens and the Generator Co., to rescind and cancel the license of 1941. The action was instituted in the Superior Court of Alameda County (Civil No. 175935) and resulted in a judgment in their favor against defendant Heinz.

On September 8, 1949, Owens, with defendant Morris Lowenthal as his attorney, instituted civil contempt proceedings against Heinz in the Alameda Superior Court charging Heinz with violating an injunction issued in 1944 in the action by Owens and the Generator Co., against Heinz, which precluded Heinz from building any generators under the 1941 license. The Court therein found that Heinz had violated the injunction and issued an interlocutory order granting damages to Owens and ordering Heinz to destroy the generators built in violation of the injunction. Subsequently, the California Supreme Court annulled the contempt order insofar as it awarded damages but sustained it as to destruction of the generators. *Heinz Co. v. Superior Court*, 42 C.2d 164 (1954).

Heinz then obtained a stay pending filing of petition for certiorari from Justice Douglas of the United States Supreme Court. Before filing the petition, the matter was settled.

On May 15, 1954, Owens assigned his entire interest in the first and second patents to Heinz and released Heinz from claims of violation of the injunction and from the effects of the contempt order.

The assignment recited that Owens “‘* * * by these presents does sell, assign, transfer and set over unto said H. J. Heinz Company, its successors and assigns, *the entire right, title and interest in and to*’ the first and second patents * * *”

In settlement, Heinz paid to Owens \$250,000.

On May 17, 1954, Owens and Heinz, in the California Superior Court action, brought a series of motions and obtained an order dissolving the 1944 injunction. (Civil No. 175935, May 17, 1954, Motion to dissolve Injunction and Modify Judgment, Civil No. 175935—Order dissolving Injunction and Modifying Final Judgment. Exhibit “C” to plaintiff’s op. brief).

Plaintiffs now seek to impose a constructive trust on “profits” held by Heinz derived from the May, 1954 transaction. (Plaintiff’s op. brief, pg. 39). It is plaintiff’s contention that Heinz acted with full knowledge of the Generator Co.’s interest in the patents and of a breach of fiduciary relationship between defendant Owens and the Generator Co.

The only interest the Generator Co. ever had in the first patent is evidenced by the agreement from which the quotation above is taken. Plaintiff contends that the construction and operative effect of the above provision and the occurrence of the event which it contemplates are fact issues which cannot be determined on this motion. However, there appears nowhere in the material before the Court any genuine material issue of fact in regard to the agreement in dispute. Whether it is termed a “grant” a “license” or an “assignment” does not change the legal effect of its provisions, and it is clearly within the province of the Court to determine the legal effect in a motion under F.R.C.P. 56(b). The contract here is unambiguous, and in construing the provision no issue of material fact appears to bear on the resolution. *Simpson Bros. v. District of Columbia*, 179 F.2d 430 (Col. D.C. 1949) cert. den. 338 U.S. 911 (1950).

We only decide on this motion the effect of the provision of the agreement as to Heinz.

In this posture, it is clear that the construction of the agreement is a question of law. *Fox v. Johnson and Wimsalt*, 127 F.2d 729, 736 (Col. D.C. 1942).

Whether defendant Owens had waived rights under the agreement or otherwise acted to change the application of the provisions as to him does not concern the Court here. If the agreement is construed as a license to the Generator Co., it is well settled that it would terminate when the Generator Co., ceased to exist legally. A patent licensing contract is personal to the licensee and terminates with the life of the licensee. Thus when the corporation ceased to exist, so did the license. *Haffcke v. Clark*, 50 F. 531, 536 (CCA 4, 1892); *Kenyon v. Automatic Instrument Co.*, 63 F. Supp. 591 (D.C. Mich. 1945).

Construing the agreement as an assignment of the legal ownership of the patent, the words of the assignment control: "For so long as said (Generator Co.) shall continue in business." The agreement, as it stands written, ceased automatically by operation of law when the events upon which it is conditioned came to pass. *Pierpont Boiler Co. v. Pen. Iron & Coal Co.*, 75 F. 289 (N.D. Ohio E.D. 1896).

When the Attorney General of New Jersey enjoined the company from transacting any business by order of November 25, 1941, (Exhibit I to Lowenthal-Owens answer and complaint), the company ceased to have an interest in the patent insofar as the plain words of the agreement are concerned. Assuming that the Generator Co., could transact some business in the way of winding up between November 25, 1941 and January 19, 1943, it is undisputed that on the latter date it ceased to have any existence at all for any purpose, for on that date the charter of the company was revoked by the Governor of New Jersey. (Lowenthal-Owens Answer, pg. 29, lines 21-27).

Therefore, as to defendant Heinz, any dealings with Owens in relation to the first patent would, and properly could, be carried out in good faith and belief that Owens was the sole owner thereof.

It is not clear from the pleadings whether the second patent was in fact transferred to the Generator Co. It was issued on March 25, 1941, three years subsequent to the agreement in question and no recording in the patent office of an agreement relating to the patent exists. (Admission to Heinz Interrog. 34). If, however, Owens gave any grant or assignment of the second patent to the Generator Co., under the 1938 agreement, it came to an end for the very same reasons as patent No. 1. Aside from this, the patent stands in the name of Chas. Owens alone. Plaintiffs contend that they have an interest in the patent because they financed its development. Whatever the merits of this claim, it does not affect Heinz' good faith dealing with Owens.

The Alameda Court determined in its judgment in 1944 (*supra*) that Owens was the owner of the patents. The patents stood in the name of Owens alone. All evidence of record showed it to be Owens' patent.

At all stages of the proceedings in the 1944 action, the Generator Co., was a party. It was represented by counsel, Morris Lowenthal, defendant herein. All stages of the 1954 settlement and vacation of the injunction were on the record and Owens was also represented by Mr. Lowenthal.

There is no dispute as to the material facts affecting Heinz' dealings. From the facts as adduced, the Court finds that Heinz proceeded properly and as a matter of law we would not impose a trust on defendant Heinz.

In addition, the matter of ownership of the patents is settled by the 1944 Alameda suit and is *res judicata* as to the Generator Co. The judgment recites (Findings of Fact and Conclusions of Law IV) that Chas. Owens is the owner of patent No. 1.

The pleadings put in issue the ownership of patent No. 2 and no adjudication finding the Generator Co., as owner of it resulted therefrom. Heinz was an adverse party to Owens and the Generator Co., in that suit.

Therefore, ownership is determined in the prior action and binds the Generator Co. now. *Johnson v. Fontana County F. I. District*, 15 C.2d 380; 2 *Freeman on Judgments*, Sec. 689.

"A former adjudication between the same parties may be either a final determination of the right of the parties or may be an adjudication of certain questions of fact which have been put in issue and decided." *People v. Bailey*, 30 Cal. App. 581 (1916).

Ownership having been adjudicated to be in Owens, Heinz could take, in good faith, absent notice of another interest, all Owens' right, title and interest in the patents. We do not decide here whether Owens, vis-a-vis the Generator Co., had waived rights under the license provisions or had acted in breach of duties owed to the Generator Co. We find no genuine issue of material fact as to Heinz' actions in respect to the patents.

On the question of notice to Heinz of an interest of the Generator Company in the injunction of 1944, no facts need be determined as this issue is purely a legal one.

On the question of destruction of a "property right" by Heinz in dissolving the 1944 injunction, as a matter of law it is clear that the injunction covered only patent rights.

"It is Further Ordered, Adjudged and Decreed that defendant H. J. Heinz Company and its officers, agents and representatives be and they hereby are perpetually restrained and enjoined and forever debarred from asserting any rights or claims based or founded upon or arising out of said original document of November 25, 1941 or any copy thereof, and from asserting or claiming the right or license to build or have built for itself or to maintain or operate vinegar generators of the type, kind or character covered by any Letters Patent of the United States owned by plaintiff Charles

H. Owens, other than the one vinegar generator installed by plaintiffs at the H. J. Heinz Company factory in Berkeley, California."

As to Heinz' knowledge, these rights were owned by Owens alone and concerned patent rights only. This is the only "property right" involved in the Alameda County Superior Court action. Whether Owens, as a fiduciary of the Generator Co., breached any duty to the Company by his actions in the matter is of no consequence in this motion for summary judgment by Heinz. We are concerned only with Heinz' duties. From the foregoing, we find that there existed no facts on which to base a claim of knowledge on the part of Heinz of a breach of duty by Owens to the Company.

Because of the conclusions above the Court has not passed upon herein the further issues raised by Heinz concerning (1) laches and the statute of limitations (2) the lack of a "res" upon which to impose a constructive trust.

THEREFORE, IT IS ORDERED that defendant Heinz' motion for summary judgment under Rule 56(b) be granted and said defendant is hereby dismissed. Counsel for defendant Heinz to prepare judgment accordingly.

Dated: April 7th, 1961.

ALBERT C. WOLLENBERG
United States District Judge

No. 17535 ✓

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

OLIN G. BLACKWELL, WARDEN,
UNITED STATES PENITENTIARY,
ALCATRAZ, CALIFORNIA,

Appellant,

v.

EDWARD C. EDWARDS,

Appellee.

BRIEF FOR APPELLEE

FILED

FEB 9 1962

DARIO DE BENEDICTIS
111 Sutter Street
San Francisco 4, California

Attorney for Appellee

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TABLE OF AUTHORITIES

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Statutes and Regulations:

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10 U. S. C. § 358

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28 U. S. C. § 1291

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Army Regulations No. 633-30

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Sec. 16 a

Sec. 16 f

No. 17535

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

CLIN G. BLACKWELL, WARDEN,
UNITED STATES PENITENTIARY,
ALCATRAZ, CALIFORNIA,

Appellant,

v.

EDWARD C. EDWARDS,

Appellee.

BRIEF FOR APPELLEE

JURISDICTION

Appellee, while confined at Alcatraz, California,
and serving sentences aggregating eleven years and months
imposed by United States Army Court-Martial, on June 9, 1941,

filed a petition for writ of habeas corpus in the United States District Court for the Northern District of California, Southern Division. On June 16, 1961, an order was entered whereby Appellee was ordered released from confinement and returned to the custody of the United States Army. The jurisdiction of the court below rests on 28 U. S. C. § 2241.

On August 15, 1961, a Notice of Appeal was filed. That notice appears to be timely. Rules of Civil Procedure, Rule 73 (a). The jurisdiction of this Court rests on 28 U. S. C. § 1291.

STATEMENT OF THE CASE

Appellant's statement of the case contained in his brief appears adequate.

SUMMARY OF ARGUMENT

Appellant argues two basic questions:

(1) Is the good time of Appellee, a military prisoner in a Federal civil penal institution, to be computed under general statutory rules applicable to civilian prisoners or under military regulations? (2) If military regulations apply, is the good time rule measured on the basis of 30 days per month of sentence or on the basis of 14.8 days per month of time served in actual confinement?

Appellant's position is that the court properly held that military regulations apply. Based on the specific language contained in those regulations and that the cases cited by Appellant refer to a different rule prevailing under earlier and different regulations.

On the second question Appellant contends that there are two rates potentially applicable: one imposed prospectively by sentence imposed, the other computed on time actually served. The latter results in the earlier release of Appellant and was properly applied by the court below since there is no limitation on its application and this rate does not apply solely to ascertain forfeitures of good time. In any event, if there is any ambiguity in the regulations, it should be resolved in favor of Appellant since his liberty is at stake. Appellant the applicable regulation clearly specifies a rate based on time actually served in confinement and that rate was properly applied by the court below.

ARGUMENT

- I. The Computation of Good Conduct Time for
Purpose of Early Release Imposed by
United States Army Court-Martial is
Governed by the Regulations in Effect
at the Time of the Sentence

The court below held that the computation of good conduct time of Appellee is governed by Army Regulations No. 633-30 rather than the general statutory rate applicable to civilian prisoners generally and confined in 18 U. S. C. § 4161.

Regulations issued by the Secretary of the Army are authorized by 5 U. S. C. § 22 (which is the enabling statute for departmental regulations to be issued by the head of each respective department) and specifically give respect to the execution of confinement by Art. 58, Uniform Code of Military Justice, 10 U. S. C. § 858 (a).

As this Court held in an appeal from an earlier application for a writ of habeas corpus by this same Appellee in Edwards v. Madigan, 281 F. 2d 73, 71 (7th Cir. 1960):

"The Secretary of the Army has statutory authority to issue regulations (5 U. S. C. A. § 22), and they are presumptively valid unless arbitrary and unreasonable, or 'plainly and palpably inconsistent with law.' Boske v. Comingore, 1900, 177 U. S. 459, 470, 20 S. Ct. 701, 706, 44 L. Ed. 846; Carter v. Forrestal, 1949, 85 U. S. App. D. C. 53, 175 F. 2d 364; United States v. Obermeier, 2 Cir., 1950, 186 F. 2d 243. The burden is on the one attacking the regulation to show its invalidity. Maryland Casualty Co. v. United States, 1920, 251 U. S. 342, 40 S. Ct. 195, 64 L. Ed. 297; Montana Eastern Limited v. United States, 9 Cir., 1938, 95 F. 2d 897; United States v. Obermeier, supra."

The regulations covering the apprehension and confinement of persons subject to the Uniform Code of Military Justice adopted by the Secretary of the Army are Army Regulations No. 633-30 which expressly provide as follows:

"These regulations prescribe procedures for the computation of sentences to confinement of persons subject to the Uniform Code of Military Justice serving sentences in the custody of the Department of the Army." (Section 1 a)

Turning to the specific provision of these regulations applicable to the computation of good conduct time, we find the following specific provision:

"The rate of earning abatement of sentences for good conduct is the same for prisoners confined in military and Federal penal or correctional institutions." Section 6 c (2) (a), page 8.

Thus, the effect of the foregoing provisions is to say that the rate shall be computed in accordance with the military rates specified. The foregoing provision is expressly made applicable to sentences adjudged on or after 31 May 1951, which applies to Appellee. As to sentences adjudged prior to 31 May 1951, the rule was different. See Section 6 c (1) (a). AR 633-20. The cases cited by Appellant at pages 6-7 of his brief all relate to sentences adjudged prior to May 31, 1951, and are therefore distinguishable and inapplicable.

Appellant has not rebutted the presumption of validity of these regulations and its provisions and has not indicated where they are "plainly and palpably inconsistent with law." Hence, Appellee's good conduct time must be determined under the provisions of AR 633-30.

II. Appellee's Good Conduct Time Should be Computed at the Rate of 14.8 days for Each Month of Confinement as AR 633-30 Provides.

The District Court not only correctly held that Appellee's good conduct time credit should be computed under applicable Army Regulations No. 633-30, but that the rate referred to in Section 16 of AR 633-30, pp. 25-26, should apply. In Appellee's case, based on the length of his sentence, this rate is 14.8 days per month "on time spent in confinement."

Based on said rate, Appellee's sentence had been fully served at the time Appellee filed his motion below. See Appellee's computations set forth in his petition filed below.

Appellant contends that only the rate specified in Section 15 of AR 633-30 (the rate applicable to Appellee therein being 10 days per month of sentence) can be applied to determine the amount of good time which can be credited to Appellee. Appellant takes the further position that the greater rate specified in section 16 can apply only in determining forfeitures of good time credited (i.e. to assure that no more good time is forfeited than a prisoner has earned at the time the penalty is imposed) and that relying on the greater rate specified in section 16 in effect permits a prisoner to earn good time if he serves beyond the minimum or earliest possible release date.

Of the two rates specified, the first is a prospective crediting of good time based on the sentence imposed. By the application of this rate it is possible to ascertain at the outset the minimum release date of a prisoner. The second rate, as specified in section 16 of AR 633-30 and which was the rate applied by the late Judge Goodman below, is described in the Regulations as follows:

"16. Crediting good conduct time earned in confinement. To determine the amount of good conduct time a prisoner earned on time spent in confinement under a sentence adjudged on or after 31 May 1951, the following rates are applicable:

"a. For each month spent in confinement, 10.5 days if the sentence, other than for life, is 10 years or more.

Thus, it is at once obvious that the first rate is prospectively applicable, measured by the length of sentence, whereas the second rate is based on actual performance, that is, on time spent in actual confinement. Where no forfeiture of good time is involved, there is no conflict between the rates. As appellant points out in his brief at pp. 14-16, the crux of the matter is, in the case where a prisoner has forfeited time and thus must serve beyond the minimum release date computed by the first rate in accordance with the length of sentence imposed, whether he can earn good time for the additional time spent in confinement during the period resulting from forfeiture of good time prospectively credited to him.

Appellant seems to feel that there is something unfair and unsound in this result and that it is different from rates applicable to other prisoners.

As to the latter point the answer is that Appellee is confined under sentences imposed by United States Army Courts-Martial and he is therefore governed by such regulations as the proper authorities have adopted to govern an Army prisoner. He was not convicted by a civilian court for a civilian crime but by a military tribunal for a military offense under the special procedures adopted for military personnel and specifically in his case for

Army personnel. That there might be differences in the manner of ascertaining his guilt or innocence, in meting out punishment for the crime involved and in the serving of the sentence imposed would certainly not be undisciplined or unexpected. It is true that while in a non-military penal institution, he must be "subject to the same discipline and treatment as" other prisoners. 10 U. S. C. § 858. But we are discussing the quantum of sentence to be served, which is still reserved to military regulation.

Therefore the appeal to uniformity in measuring good conduct time is specious and is not a sound basis upon which to reject the application of the clear language of Section 16 of AR 633-30.

As quoted hereinabove, section 16 expressly provides that the rate specified therein applies to time actually served. It does not limit this to time served prior to the minimum release date. It does not limit it to time served while behaving properly. Instead it expressly provides that it applies "for each month spent in confinement" and is to be used "to determine the amount of good conduct time a prisoner earned on time spent in confinement."

It is true that the rate specified in section 16 can be and is used to measure the maximum amount of good conduct time earned at the time of imposition of a forfeiture. This is a necessary requirement in order to avoid forfeiting more good time than a prisoner has earned. See Section 7 a (2), AR 633-30. But that is not its exclusive use.

Appellant, by concerning himself with computing the minimum release date on the basis of the sentence imposed, has relegated to the rate specified in section 16 the sole function of determining the amount of time that can be forfeited. He then argues that if the rate specified in section 16 is used for any other purpose, this renders the rate specified in section 15 meaningless. There are two answers to this question. At page 26, AR 633-30, subparagraph f of section 16 reads as follows:

"f. If the computation of the total amount of good conduct time earned results in a fraction of a day, the fraction will be disregarded when such computation is to determine the maximum amount of good conduct time which can be forfeited. If the computation of the total amount of good conduct time earned is for purposes other than forfeiture, the fraction of a day will be increased to the next whole number of days." [Emphasis added.]

Thus the very regulation that has been applied recognizes that the rate specified in section 16 can be

applied for purposes other than forfeiture. Indeed it provides that in cases other than forfeiture the prisoner is to be given the benefit of rounding off fractions to the next highest full number. This could only have coming in connection with crediting good time earned based on actual confinement.

To the extent that there might be any ambiguity as to which rate is applicable, it should be resolved in favor of the liberty of the prisoner. However, the regulations involved are clear that good time can be earned during all of the time a prisoner is confined even though he forfeited good time previously earned. There is nothing "unfair" in this but in fact it is more equitable than to deprive him not only of good time earned, but also of the right to earn additional good time during the additional time spent in confinement.

Where good time is withheld, as distinguished from forfeited, no good time is earned during that period. There is some confusion in the record as to whether the withholding of good time was intended to be of all good time that could have been earned during the particular month the penalty was imposed or whether there was only a partial withholding. It appears that only 10 days were ordered to be withheld during each of the 11 months

involved. However, Appellee could save 14.8 days per month, leaving 4.8 days of good time not utilized in the failed. Thus it appears that Appellee should have been released 11×4.8 or 52.8 days sooner than he claimed.

In any event, the decision is correct under either view, the only difference being how much additional time Appellee has served beyond the date on which he should have been released, which remains a relevant consideration in view of his conditional release.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the order of the court below is affirmed and that Appellee be considered as having been released on March 16, 1961, or in any event on May 8, 1961.

Respectfully submitted,

DANIEL DE MENDONÇA
Attorney for Appellee

IN THE

United States Court of Appeals

For the Ninth Circuit

No. 17638 ✓

JORGEN V. KIERULFF,
Plaintiff-Appellant,

vs.

METROPOLITAN STEVEDORE COMPANY,
Defendant-Appellee.

On Appeal from the United States District Court for the
Southern District of California—Central Division

PLAINTIFF-APPELLANT'S BRIEF AND APPENDICES

ASHLEY STEWART ORR
*Attorney for Plaintiff-Appellant,
Jorgen V. Kierulff*
612 South Flower Street
Los Angeles 17, California

FILED

JOHN M. CALIMAFDE
HOPGOOD AND CALIMAFDE
Of Counsel
60 East 42nd Street
New York 17, New York

SEP 11 1962

FRANK J. SHERIDAN, CLERK

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IN THE

United States Court of Appeals

For the Ninth Circuit

No. 17638

JORGEN V. KIERULFF,

Plaintiff-Appellant,

vs.

METROPOLITAN STEVEDORE COMPANY,

Defendant-Appellee.

PLAINTIFF-APPELLANT'S BRIEF

JURISDICTIONAL STATEMENT

This is an appeal from a final judgment in a patent infringement action arising under the patent laws of the United States (Title 35 U. S. C., and 28 U. S. C. §1338).

The final judgment was entered on September 26, 1961, by Judge W. Mathes of the United States District Court, Southern District of California, Central Division. A notice of appeal was filed on October 6, 1961, within thirty days of the judgment, pursuant to Rule 73, F. R. C. P.

Jurisdiction is conferred on this Court by Title 28 U. S. C. §1291.

INTRODUCTION

Jorgen V. Kierulff, appellant (plaintiff below), a citizen of the United States, and residing in the County of Los Angeles, filed his complaint on May 3, 1960 (R. 2)* against Metropolitan Stevedore Company, located and doing business in Wilmington, California. (The parties will hereinafter sometimes be referred to as Kierulff or appellant and Metropolitan or appellee.) The complaint alleged infringement of U. S. Patent No. 2,919,042, issued December 29, 1959.

Metropolitan, appellee, filed an answer asserting the invalidity of the patent in suit, alleging license, laches and denying infringement. Metropolitan, further, counter-claimed for a declaratory judgment of invalidity, non-infringement because of license, and noninfringement because of invalidity (R. 13).

STATEMENT OF THE CASE

In this statement, we shall first provide a brief historical review of the case including the trial proceeding, the decision of the Trial Court, and the proceedings following the Judgment which affect the posture of this case on review.

We shall then proceed to a factual discussion of the invention and the circumstances affecting the issues of validity, infringement and license, with appropriate references to the record.

* We shall designate references to the record by the letter "R."; references to the trial transcript by the letters "Tr." preceded by the witness's name if appropriate; references to the trial exhibits by the letters "Exh."; and references to the pretrial depositions by the letters "Dep." preceded by the deponent's name.

THE TRIAL PROCEEDING

A. A Brief History of the Case

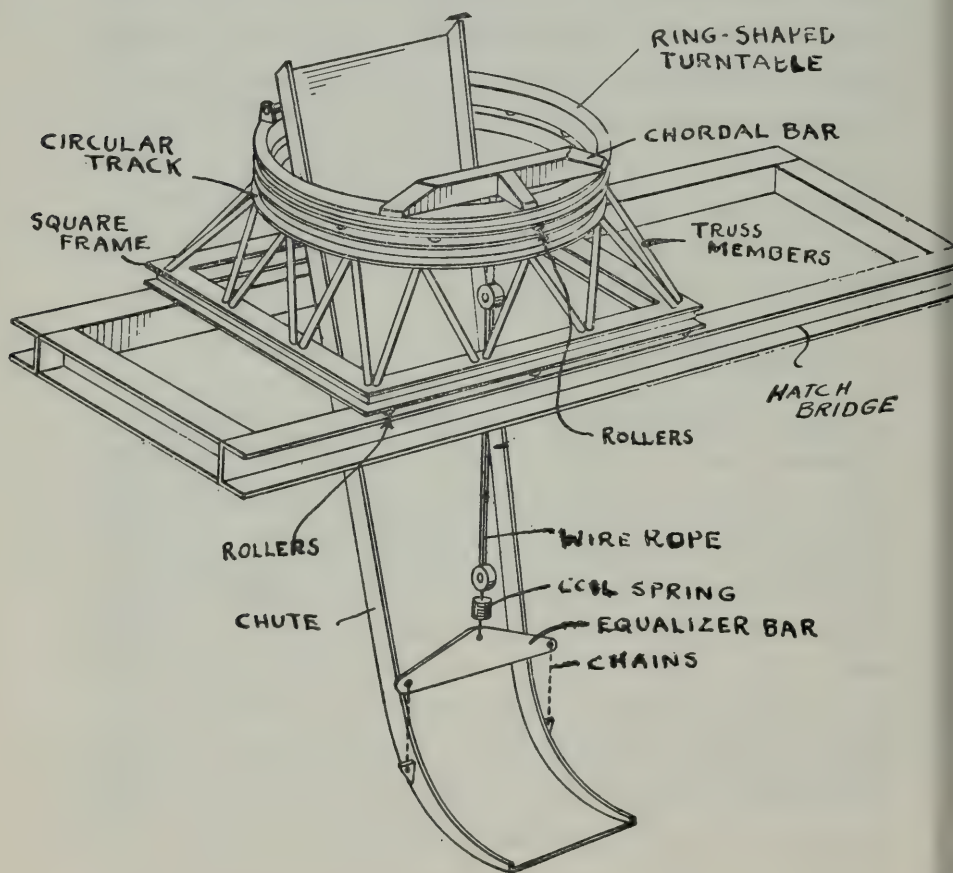
This was not the usual trial because of certain pre-trial events, observations and rulings made by the Trial Judge during trial, and indeed, the opinion itself *vis-a-vis* the issues and adduced evidence. In order that this Honorable Court may have the proper perspective of the trial setting, we shall briefly delineate the relevant circumstances.

The cast of main characters comprises appellant Kierulff, inventor and owner of the patent in suit (the patent (Exh. 1) being directed to apparatus for loading scrap metal into the holds of ships); appellee Metropolitan, one of the largest scrap-loading operators on the West Coast, who admits having copied the patented invention (Tr. 445, 467); and National Metal & Steel Corp., another very large scrap-loading operator in the Los Angeles area, licensee of the patent in suit, former employer of appellant, but a stranger to this action.

1. The patent in suit

Briefly, the patent claims are directed to a combination (diagrammatically illustrated below), comprising a rectangular framework which overlies a ship's hatch opening and is called a hatch bridge; a trolley structure mounted on the hatch bridge and consisting of a square frame, a circular track, truss members rigidly securing the square frame and circular track together, and rollers provided at the underside of the square frame for permitting easy movement along the hatch bridge; a ring-shaped turntable, overlying the circular track, and having rollers for rotation on the track; a chute, extending through the trolley structure into the ship's hold where the scrap metal is to be delivered, the chute being supported at its upper portion

on a chordal bar (i.e., a bar extending chord-wise of the ring-shaped turntable), and the lower portion of the chute being suspended from another chordal bar on the turntable diametrically opposite the first bar; the suspension means for the lower part of the chute absorbs part of the shock of the load impact, i.e., it performs a snubbing function and comprises chains, equalizer bar, hoist mechanism, wire rope and also preferably a coil spring. Successive charges of scrap, which may weigh as much as three thousand pounds and be in a loose or compressed form, are dropped by an electromagnet on the chute and projected from the chute to the far corners of the hold.



The patent issued to appellant December 29, 1959. On January 14, 1960, appellant, in writing, charged appellee with infringement of the patent in suit, and on May 3, 1960, within six months after the issuance of the patent, this suit was instituted.

2. Appellee admittedly copies appellant's invention.

At the time that appellee Metropolitan was notified of infringement, it was using scrap-loading apparatus which was simply and admittedly a copy of the patented invention (Tr. 445, 467). As to the apparatus then in use, infringement is admitted of claims 2 and 3, of the three claims in the patent (R. 310, Par. G).

After receiving the notice of infringement, appellee, in a specious attempt to avoid infringement, removed only the coil spring from the chute suspension means (R. 310, Par. F; Buchholz Dep. 64).^{*} The removal of the coil spring did not affect the snubbing efficacy of the suspension means as the wire rope and other parts performed the snubbing function (Tr. 302, 396; Buchholz Dep. 65, 66, 84). We shall discuss the immateriality of the coil spring later in the Argument section of the brief.

3. Motion for Partial Summary Judgment temporarily granted.

Prior to the trial, appellee Metropolitan moved the Trial Court for partial summary judgment on the ground that the apparatus without the coil spring did not infringe the claims because of file wrapper estoppel (R. 201). The motion was granted by Minute Order on February 27, 1961 (R. 213), notwithstanding the fact that the coil spring is not recited as an element in any of the claims.^{**}

^{*} Mr. Thagard Buchholz is president and general manager of appellee (defendant below).

^{**} In fact, throughout the history of the prosecution of the patent, appellant never presented, cancelled or amended a claim in which the coil spring was recited as an element.

4. District Court's Order on Summary Judgment vacated.

Appellant filed a motion for reconsideration, together with supporting affidavits (R. 216), which motion remained open until the trial proceeding. During the trial, the Court granted appellant's motion and vacated the previous order granting partial summary judgment (R. 386).

5. The Pretrial Order

In the pretrial Order (R. 309), the usual patent defenses were specified. They were: (1) invalidity on prior art (appellee relies on 27 U. S. and foreign patents, nineteen of which were cited by the Patent Office); (2) prior inventorship, which was not pressed during trial and apparently dropped; (3) prior knowledge, which was not pressed during trial and apparently dropped; (4) public use; (5) prior sale; (6) file wrapper estoppel; (7) laches; and (8) license.

6. Appellee elects to rely on only two defenses.

At the outset of the trial (Tr. 21, 22), however, appellee's counsel effectively reduced the number of issues by stating:

"Well, there are two issues really. First, prior public use, and, second, that Mr. Schapiro [President of National Metals], who has been subpoenaed as a witness, of National Metals, owned these inventions at one time and granted a license to defendant in this case to make and use the structures.

"Those basically are the two defenses which we have."

Succinctly, out of the reservoir of defenses, defendant-appellee selected two, namely public use and the equitable defense of license from a stranger, National, who admittedly had no legal title to the patent (Pretrial Order, R. 310, Par. D).

B. The Trial

1. The public use issue

The trial lasted three days, practically all of which time was devoted to the issues of public use, prior art, and infringement. Appellee produced six witnesses and a large number of exhibits in its attempt to prove these defenses which we shall discuss more fully later in the brief. Suffice it to say now, that in regard to its case on public use, one of appellee's witnesses admitted that critical evidence was falsified (Shanley Tr. 200), and further that he delivered certain drawings (offered by defendant-appellee) to appellee's counsel two months prior to trial which in open Court was flatly contradicted by appellee's counsel (Shanley Tr. 201). We shall later discuss other evidence offered by appellee's witnesses which we shall demonstrate, is so inconsistent and contradictory as to tax one's sense of credulity.

Public use is a question of fact (*Elizabeth v. Pavement Co.*, 97 U. S. 126) and it is significant that after hearing all the evidence, the Trial Court stated as follows:

“Mr. Whann, I am satisfied that was experimental use. Unless you want to argue some further, I will give you some time. (Tr. 450).

* * *

“You may argue it if you like, but I am fairly well convinced * * * (Tr. 450) that it was an experimental use, and under the circumstances it certainly couldn't have been private, a great many people had to see it. It wasn't intended to be a public use, in my view, and it was purely an experimental matter (Tr. 451).

* * *

“I just don't like to see you waste so much of your time on this. I am familiar with the decisions on the subject and I am familiar also with the fact that the law requires the clearest and most convincing proof

of a prior public use before a patent can be invalidated upon that ground (Tr. 454).

* * *

“The evidence here is certainly far from clear and convincing to me, of prior public use. Even the time of it is not convincing, clear and convincing.” (Tr. 454).

2. The license issue

Appellant was retained by National Metal & Steel Corp. (National) simply to prepare drawings of a scraploader (Tr. 141; Schapiro, Tr. 173). National’s president testified that appellant was not retained to invent and was under no contractual obligation to assign any rights for inventions to National (Tr. 171).

Appellee’s position on the issue of license is that since appellant was retained by National, his scraploader invention ipso facto became the property of National (a claim never made by National but rather refuted by its actions as we shall later demonstrate) and that National orally gave permission to appellee to use the invention of appellant’s patent. When the Trial Court first heard this theory, it expressed its predilection against the notion of an oral license received from a stranger to the action who had never owned or possessed any transferable rights in the patent. The Court commented as follows:

“I know, but it [oral license] has to be established, it has to be established so clearly—I will try it, of course, but I have never seen a case yet in which the proof was not so conflicting you could say that the burden was met” (Tr. 26).

3. The District Court’s holding on license

The Court held that defendant-appellee obtained a license, but on a theory wholly different from the one urged by appellee. The Court found,

“that, plaintiff, in 1955, granted to defendant an implied license in the nature of a ‘shop-right’, namely, an irrevocable, non-exclusive, non-assignable right to make and use the machine described in the patent in suit.” (R. 388).

The Trial Court, therefore, in its Order did not hold that defendant-appellee obtained a license from a third party, etc., but rather that plaintiff (directly) granted an implied license to defendant in 1955.

The Court’s decision is apparently predicated on an occasion when appellant Kierulff observed a scraploader, corresponding to his invention, in use at appellee Metropolitan’s scrap yard during the latter part of 1955 or the early part of 1956 and did not complain to Metropolitan (Tr. 478). At that time plaintiff had neither a patent, nor even a patent application; he had only an invention.

C. Post-Trial Proceedings

After the Order, we filed a motion for reconsideration (R. 389) which was denied. The Court, however, amended its original Order by stating that the implied license was royalty-free, and that the Court had not found it necessary to reach the issues of validity and infringement (R. 400).

Findings of fact, conclusions of law and judgment were drafted by appellee’s counsel. Objection was made to most of the findings as being manifestly contradictory to the evidence, but were nevertheless signed with minor changes (R. 401).

1. Proceedings before this Court

An appeal was taken and in due time the Statement of Points on Appeal was filed (R. 432). The Statement included as errors such points as a failure to hold the patent valid and infringed. Appellee moved this Court for an Order striking those points relating to the validity

and infringement of the patent. The motion was denied (*Kierulff v. Metropolitan*, 300 F. 2d 614) and this Court inferentially held, at page 617, that if the evidence is clear and incontrovertible that the patent is valid and infringed, it shall remand with directions to enter judgment for appellant.

We earnestly believe that as to each of the issues presented to the Trial Court, the evidence is clearly and incontrovertibly in support of appellant's position, and we shall address ourselves to that burden. To meet that burden, we shall rely primarily on the evidence offered by appellee.

D. A Historical Sketch of the Invention

Appellant, Kierulff, engineer by profession, was born in Denmark and educated in Denmark and Sweden. Shortly after World War II, he immigrated to the U. S. and has continued in his endeavors in the engineering profession.

During the year 1955, Kierulff was employed by the Modern Crane & Conveyor Co. (Modern Crane) as an engineer performing routine tasks in the design and construction of cranes and like equipment (Tr. 43). Since his work was of a routine nature, he had no agreement with his employer regarding inventions (Tr. 97).

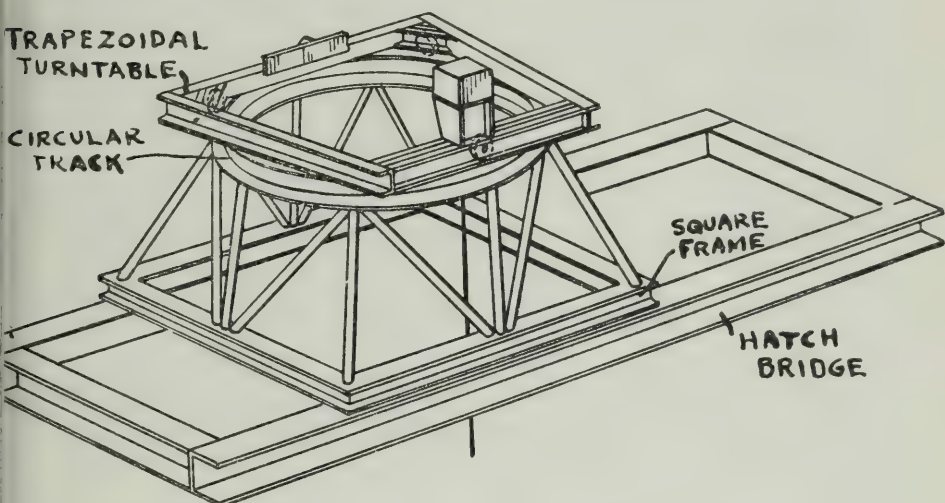
1. There was a need for the invention described in the patent in suit.

Some time in the late spring or early summer of 1955, Kierulff was invited by National to visit its scraploading yard and to observe the scraploading techniques then in use (Tr. 98), as there was a commercial need for a scraploading device (Schapiro Tr. 170I).

The various problems were discussed with National's shiploading supervisor, Mr. Victor Fabian, and eventually,

Kierulff, as an employee of Modern Crane was asked to produce drawings of a scraploader (Tr. 108).

Kierulff prepared layout drawings of the first scraploader design (Exhs. 9, 10 and 11), which for the convenience of the Court we have diagrammatically illustrated below. An order was placed with Modern Crane for two partial units comprising the hatch bridge, trolley structure, and trapezoidal turntable; National supplied the chute and its suspension means (Tr. 117).



2. The "jury rig" was experimental and unpredictable.

Since the scraploader was the first of its kind and its capabilities unpredictable, it was considered experimental (Fabian Dep. 9, 10; Kierulff Tr. 116; Schapiro Tr. 170-VV, 170-WW, 184, 185). National called it a "jury rig" which name we shall use to designate the earliest units equipped with the trapezoidal turntable supported on three rollers.

When it is realized that metal in compressed and loose form weighing between 1,000 and 3,000 pounds is dropped from various heights, hopefully on the chute, it is not difficult to understand why the performance of the first unit was not predictable.

a. Kierulff retains control of the jury rig.

Although the jury rig was fabricated partly by Modern Crane, and partly by National, the novel design was entirely Kierulff's (Tr. 112, 114), and Kierulff retained control over all significant design considerations throughout the development of the rig (Tr. 131-135; Schapiro Tr. 170-WW, 170-XX).

Inasmuch as a scraploader is a unique piece of apparatus subjected to conditions not practically reproducible in a laboratory (Tr. 143, 144; Judge Mathes Tr. 453), the jury rig was tested by loading actual scrap into a Liberty ship in June, 1955* (Tr. 170-G). Neither Modern Crane nor appellant had any facilities for independently testing the jury rig. The jury rig eventually proved to be a tremendous improvement over existing scraploading techniques, but not without first solving many problems which beset the early experiments (Tr. 123; Fabian Dep. 17, 24, 25). For example, during the first scraploading operation, in June 1955, falling scrap damaged the trapezoidal turntable, the unprotected track and certain other parts of the rig (Tr. 131; Schapiro Tr. 184).

As a result of the apparent shortcomings of the jury rig design, certain changes were made pursuant to Kierulff's instructions (Tr. 120, 131-135; Schapiro Tr. 173, 174).

3. Kierulff recommends a new design.

The deficiencies in the basic design of the jury rig were sufficiently serious so that after observing the first operation, Kierulff recommended to Schapiro (President of National) that the scraploader be altered in design to eliminate its shortcomings (Tr. 128; Schapiro Tr. 184). Schapiro also observed the first loading and was apparently

* The first use of the jury rig was June 1955; the first use of the rig corresponding to the patent was October 25, 1955; the filing date of the patent was October 8, 1956. The nature of the first use of the jury rig is in dispute although the differences in design are not.

satisfied that the jury rig was not a satisfactory commercial scraploader as he entered into an oral agreement with Kierulff (Tr. 140, 141; Schapiro Tr. 170-WW, 170-XX) to purchase drawings of a new design for \$600 (Exh. R).

At the time of this agreement, Kierulff was still in the employ of Modern Crane, however, he was permitted to enter into special consulting agreements for his own profit (Kierulff Dep. 320, 333, 335). It was expected, of course, that apparatus of Kierulff's design would be referred to Modern Crane for fabrication. In this way, Modern Crane would also profit by Kierulff's special agreement.

The new drawings were made during July 1955 (Exhs. 14 through 18, Tr. 145 *et seq.*) and delivered to National with a bill specifying that the drawings were for National's use only (Exh. R, Tr. 170-T). The bill was subsequently paid and an order was placed with Modern Crane (Tr. 151-153) for the fabrication of the hatch bridge, trolley structure and ring shaped turntable. National was to supply the chute, and the chute suspension means including the equalizer bar, chains, and wire rope (Tr. 152—see page 4, *supra*). We shall call the second design of the scraploader the patented or ring-shaped turntable rig (as distinguished from the experimental jury having the trapezoidal turntable rig).

4. First use of scraploader corresponding to patent in suit

Kierulff terminated his employment with Modern Crane to join National as a monthly salaried employee on October 15, 1955 (Schapiro Tr. 172). One of Kierulff's first duties with National was to procure the missing parts and complete the ring-shaped turntable rig for use (Tr. 156). The first use of that rig was on October 24, 1955* (Schapiro Tr. 170-SS, Fabian Dep. 34).

* Kierulff's patent application was filed October 8, 1956 within one year of the first use (even if commercial) of the patented rig.

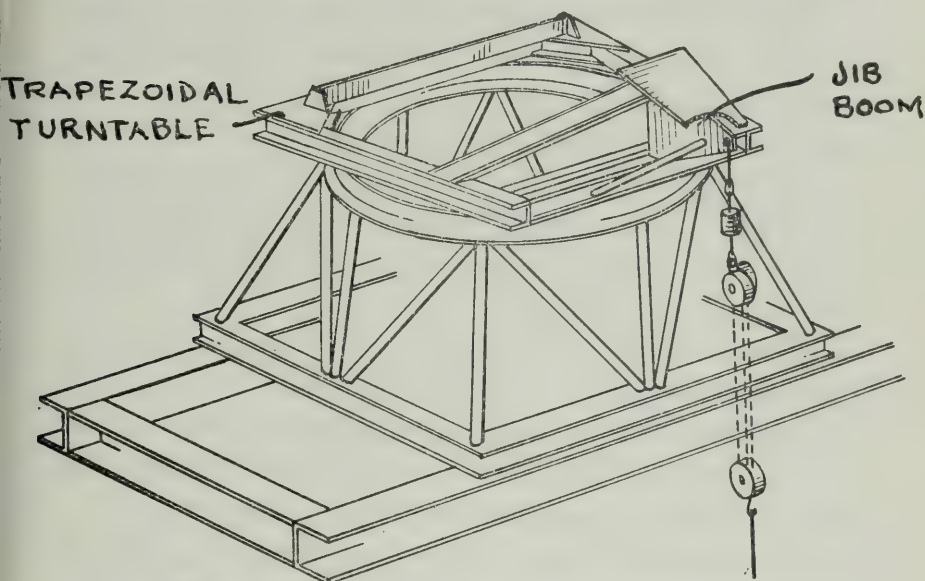
5. Differences between jury rig and patented rig

The basic and material differences between the jury rig and the patented rig which were developed as a result of observing the initial experiment of the jury rig reside in the shape of the turntable and the relationship between the turntable and track. For example, in the patented rig the turntable is ring shaped and coextensive with the track. As a result of this shape and relationship, the turntable is supported along its entire perimeter so as to resist bending due to scrap impact. Further, the track is completely sheltered by the overlying turntable so that the track is always protected against fouling or damage by the scrap. The weight of the chute and the weight of the scrap are also more uniformly distributed throughout the entire structure because the diametrically opposite chordal bars are secured to a turntable which is supported substantially continuously over the entire perimeter of the track (Sjogren Tr. 309-312).

The ring-shaped turntable rig with certain changes (Tr. 159) became the commercial design, however, at the time it was designed and placed into operation it constituted just another stage in the development of the scraploader (Schapiro Tr. 170-WW; Tr. 157, 158). Indeed, even the ring-shaped turntable rig was at first called a jury rig (i.e. an experimental rig) until Kierulff was satisfied that it was a commercially feasible design (Tr. 158); that is, after October 24, 1955 and within one year of the patent filing date.

National subsequently purchased five additional units of the ring-shaped turntable type and, of course, continued to use the original jury rigs until they were damaged beyond repair. There is no dispute that the jury rig was the beginning of a revolutionary device and in itself represented a tremendous advantage in savings over the prior techniques (R. 330, Par. 26).

We might mention that even though the original jury rig was a great improvement over the prior techniques, it was basically modified after Kierulff joined National by adding a so-called boom or jib outside the trapezoidal turntable for supporting the lower end of the chute (Tr. 93, 94, Exhs. BD, BJ). We have illustrated the jib construction below, for the Court's convenience. The jib modification is significant, for it too demonstrates a lack of satisfaction with the jury rig and a continuing effort to improve it.



Kierulff was employed by National for approximately one year on a monthly-salary basis; he terminated his employment October 1, 1956 (Schapiro Tr. 172). During his employment he had no contract with National providing for the assignment of the patented invention (Tr. 171).

6. Kierulff's patent application

Subsequently, Kierulff applied for patent protection on his novel scraploader and was awarded the patent in suit on December 29, 1959, after a very thorough and careful examination by the Patent Office. The patent examiner

cited nineteen of the most pertinent U. S. and foreign patents against Kierulff's application before allowing the claims in suit.

7. Patent Office interference and its legal effect

Schapiro (President of National) became informed of Kierulff's patent application and decided (for reasons which are not relevant here) to file a patent application on the ring-shaped turntable scraploader jointly with Victor Fabian, National's shiploading supervisor, in February 1957. We shall call that application, the National patent application. At the time that National filed its patent application, it requested the Patent Office to set up an interference between Kierulff and National. An interference is an *inter partes* proceeding instituted by the Patent Office to determine priority of invention as between the parties involved (35 U. S. C. §135).

An interference was declared and eventually settled by National assigning its application to Kierulff in exchange for a license to use and to make the patented rigs but for its own use only (Exh. P). In other words, National obtained written confirmation of a "shop-right" which it may have acquired as a result of its prior relations with Kierulff.

In addition to the legal effect of an interference proceeding enhancing the presumption of validity (*The Filtex Corporation v. Amen Atiyeh*, 216 F. 2d 443), the National application and interference settlement are significant for two reasons:

1. *First*, when Schapiro and Fabian executed the patent application they took solemn oath that the scraploader design was not in public use more than one year prior to the filing date of February 1957 (Schapiro Tr. 170-MM; Exh. 24). That placed the critical date in February 1956. By that time the jury rigs had

been used many times and the ring-shaped turntable rig had been used at least once (Oct. 24, 1955). Thus, necessarily, Schapiro and Fabian (as well as Kierulff) believed and understood that the use of the jury rigs and the use of the ring-shaped turntable rig on October 24, 1955, were experimental (Schapiro R. 170-VV, 170-WW).

2. *Second*, the interference settlement is significant because it resulted in a reduction to writing of the legal relationship which the parties believed to have previously existed and which refutes completely the license theory advanced by appellee.

E. Metropolitan's Appearance in the History of the Kierulff Invention

Appellee Metropolitan prior to World War II loaded about 90% of the scrap iron in the Los Angeles-Long Beach Harbor (Buchholz Tr. 228). During the war, an embargo on scrap metal exportation caused Metropolitan to discontinue the scraploading business.

1. The need for a scraploader prevents Metropolitan from returning to the scraploading business.

After the war Metropolitan was requested by some scrap shippers to return to the scraploading business but declined because of the lack of anticipated profit (Buchholz Tr. 228, 235).

During the latter part of 1954 and early part of 1955 the requests by shippers persisted so that Metropolitan "canvassed the country" in regard to magnets, and "searched the coast" in its effort to find a commercially feasible scraploader (Buchholz Tr. 228, 229). Mr. Buchholz, president and general manager of Metropolitan, testified that he had not seen any scraploader, which he considered satisfactory, to justify a return to the business, *until* he saw Kierulff's jury rig at National (Buchholz Tr. 229, 235; Buchholz Dep. 61).

Buchholz visited National on two occasions in July and August, and he testified that he saw only the jury rigs in operation, but that he discussed the scraploaders with National employees including Fabian (Tr. 242; Dep. 18, 19, 87) when he probably was told of the ring-shaped turntable rig.

After seeing the jury rigs in use, Mr. Buchholz obtained permission from National to send a draftsman from a fabricator named Wilmington Welding & Boiler Works to prepare drawings of the jury rigs.

2. Metropolitan's evidence is contradictory and self-incriminating.

The draftsman, Mr. R. Shanley, was produced at the trial and his testimony was most informative. He referred to his diary to confirm his recollection as to dates, and testified that he began work on a scraploader drawing for the first time on August 25, 1955 and first visited National on August 31, 1955 (Tr. 192, 195). Defendant, however, previously offered a drawing illustrating the invention bearing Mr. Shanley's initials (Exh. BL) which showed a date of August 1, 1955! Mr. Shanley could offer no explanation (Tr. 200, 201) for the discrepancy between the date appearing on the drawing (August 1, 1955) and the date when he first began work on any drawing (August 25, 1955). This positive act of falsifying evidence was part of defendant-appellee's plan to pretend knowledge of the ring-shaped turntable rig prior to a visit by Kierulff, as we shall discuss shortly. Suffice it to say now, that this critical Exhibit BL was admittedly falsified and was only the beginning of an onrush of contradictory statements and exhibits from Messrs. Shanley, Ponsen and Buchholz.

For example, Buchholz testified that he saw only the jury rigs at National and requested Shanley to sketch the rigs, yet Shanley returned from National with Exhibit BL

which illustrates a ring-shaped turntable rather than the jury rig trapezoidal turntable. Besides the difference in the shape of the turntable, the dimensions of the component parts illustrated in Exhibit BL correspond to the larger ring-shaped turntable rig and not the jury rig.

Further, Shanley testified that he saw the ring-shaped turntable rig on August 31, 1955 on shipboard (Tr. 196), yet Buchholz (Dep. 87, 88), Kierulff, Fabian and Schapiro testified that the ring-shaped rig was first used on October 24, 1955.*

Shanley also testified (Tr. 199) that he worked on drawings November 17 through 19, 1955 (Exhs. BO, BP), yet Buchholz testified that Metropolitan had probably received the patented rigs around November 1, 1955 (Dep. 21). Thus, the drawings, which were presumably necessary for the fabrication of the rigs, were still in the process of preparation even after the rigs were built and delivered. This is analagous to an architect first building a house and then drawing the plans.

Finally, when Shanley was asked whether he had retained custody of the drawings offered in evidence, he answered that he had delivered the drawings to defendant's attorney in June 1961. Defendant's attorneys flatly denied ever having received them (Tr. 201). At the close of the case there was no explanation offered for this contradiction between attorney and witness.

Kierulff visited Buchholz during the latter part of August 1955 (Buchholz Dep. 25) and offered to sell Metropolitan a scraploader of the ring-shaped turntable design. The scraploader was described and illustrated in a proposal dated August 23, 1955 which was marked by Kierulff with a "proprietary information" notice (Exhs. AT, AU). The notice, of course, was seen by Buchholz and he testified that he simply filed the proposal away (Dep. 52, 53).

* The date October 24, 1955 is consistent with the loading chart Exh. 25.

It will be recalled that the ring-shaped turntable rig was not used until October 24, 1955. In fact, at the time of the offer to sell, the patented rig had not yet been constructed, and therefore obviously not used or tested.

Buchholz placed an order with the Wilmington Welding & Boiler Works for three units of the ring-shaped turntable design on August 29, 1955 (Ponsen Tr. 210), after having seen Kierulff's proposal marked with the proprietary notice. Apparently recognizing the insidious nature of this act, Buchholz or someone acting under his authority, falsified the drawing (Exh. BL) in an attempt to show knowledge prior to Kierulff's visit. Indeed, Buchholz in his pretrial deposition spun a complete story around the falsified drawing. For example, before the purchase order, dated August 29, 1955, came to light, Buchholz had testified that he saw the drawing Exh. BL around August 1, 1955 and that he placed an order with Wilmington prior to Kierulff's visit (Buchholz Dep. 15, 20) all of which we now know to be untrue.

3. Metropolitan copies Kierulff's invention which satisfies the need.

Buchholz considered the jury rig unsatisfactory and testified that he "would never have built one" (Dep. 10). He did, however, possess sufficient business acumen to recognize that the basic differences in the ring-shaped turntable rig would provide a commercially successful device. He, therefore, copied unabashedly, wilfully and deliberately the patented rig (Whann Tr. 467).

Metropolitan had three units built in November 1955 (Buchholz Tr. 246) which included the coil spring in the lower chute suspension means. Kierulff, while still in the employ of National during the latter part of 1955 or early part of 1956, visited the Metropolitan scrap yard and observed the rigs of the ring-shaped turntable design in

operation (Whann Tr. 466). At that time, Kierulff had not yet filed his patent application and, therefore, had no enforceable right. Under the statute, Kierulff was permitted one year to file an application after the first public use, which arguably might be as early as October 24, 1955; i.e., the first use of the ring-shaped turntable. It is recalled, however, that Kierulff and National considered the use on October 24, 1955 as experimental (Schapiro Tr. 170-VV, 170-WW). Kierulff contacted a patent law firm in Los Angeles for the preparation of an application in or about June 1956.

During the succeeding several months, no work was done by the firm, and in September, Kierulff retrieved the invention disclosure and forwarded it to his New York patent attorney with whom Kierulff had previous experience.

The application was then prepared and filed on October 8, 1956 within one year of October 25, 1955, the date of first use. A petition to the Commissioner was promptly filed on or about November 13, 1956 to expedite the prosecution of the application on the ground that Metropolitan was infringing the claims (Exh. A). A petition to the Commissioner is the only course an applicant has to expedite the examination of his application. The petition was granted on January 10, 1957; however, the interference (discussed previously) with the National application delayed the issuance of the patent until December 29, 1959.

Sixteen days after the patent issued, Kierulff charged Metropolitan with infringement. As a result of the charge, Metropolitan, in a specious attempt to avoid the patent, removed only the coil spring from the chute suspension means (Buchholz Dep. 64-66). No other change was made by Metropolitan to the scraploaders. As we mentioned previously, the coil spring was the subject of the motion

for partial summary judgment. We shall discuss the lack of technical and legal significance of the coil spring later in the brief.

F. Summary of the Basic Issues

According to the Trial Court, an implied license arose when Kierulff observed the scraploader of his design, in use, at the Metropolitan scrapyards and did not complain (Judge Mathes Tr. 478). According to appellee's theory, however, it obtained an oral license, not from appellant, but from National on the premise that National had acquired ownership to the invention through its relationship with Kierulff.

The findings of fact and conclusions of law, authored by appellee, mix the two theories together thereby tending to confuse the precise basis of the judgment.

Being mindful of our burden, we shall discuss each theory and endeavor to demonstrate that the uncontroverted facts gleaned from defendant-appellee's evidence compel a legal conclusion favorable to appellant. However, in order that no stone be left unturned, we shall also come to grips with all of the other issues raised by appellee in the Trial Court.

SPECIFICATION OF ERRORS *

A. Implied license

1. The Trial Court erred in holding an implied license, without finding as conditions precedent the validity and infringement of the patent.

* The Statement of Points on Appeal as required by Rule 75(d) appears verbatim in Appendix A. In this Specification of Errors we have endeavored to frame the basis for each error more comprehensively, without departing, however, from the spirit or scope of the Statement of Points on Appeal.

2. The Court erred in holding an implied license, i.e., a license by estoppel, because appellant, at the time of seeing his invention being used by appellee, had no enforceable patent right, had not even an inchoate right, and had no duty to complain; further, appellee had not relied on appellant's silence, and had not changed its position in any way whatever.

3. The Court erred in permitting appellee to raise the question of alleged equitable ownership in a stranger to the action; appellant is admittedly the legal and record title owner of the patent.

B. Public use

4. The Court erred in not holding that the patented invention was not in public use more than one year before the filing date because the jury rig was materially different in design from the patented scraploader.

5. The Court erred in not holding that the use of the jury rig was experimental (rather than public) because appellant retained control over the design considerations of the jury rig and in fact, did make design changes, and further, because the experimental nature of the scraploader was acknowledged by appellant and the customer (National) in documents long prior to the institution of any lawsuit.

C. Prior sale

6. The Court erred in not holding there was no prior sale within the meaning of the patent laws, because appellant merely offered to sell a special scraploader on a proposal basis before the scraploader had been constructed or used.

D. Prior art

7. The Court erred in not holding the patent valid because,

(a) The patented invention solved a problem of such magnitude that appellee had refrained from returning to the scraploading business until it became aware of appellant's invention.

(b) Appellant's invention solved the problem which perplexed the industry, as is evidenced by Metropolitan copying appellant's invention, re-entering the business, and actively pursuing the business since its re-entry.

(c) The invention is a great commercial success.

(d) The patent was granted only after thorough consideration by the Patent Office of the most pertinent art.

(e) Both expert witnesses testified that the claimed combination was novel.

(f) Metropolitan slavishly copied appellant's invention.

E. Infringement

8. The Court erred in not holding that the claims were infringed because defendant has admittedly appropriated Kierulff's patented invention, and each of the claims reads directly on the accused apparatus.

F. File wrapper estoppel

9. The Court erred in not holding there was no file wrapper estoppel, because there is no necessity to resort to equivalents, because the claims as worded find complete response in the accused apparatus, and because Kierulff never made a representation to the Patent Office which requires a construction other than the ordinary meaning of the claims.

G. Damages and attorney's fees

10. The Court erred in not holding that appellant is entitled to treble damages and attorney's fees, in view of the admitted falsification of real evidence, the contradictory testimony given by Metropolitan's witnesses, the dispute in open court between Metropolitan's counsel and one of his witnesses regarding the veracity of his testimony, and the wilful and deliberate copying of Kierulff's invention.

H. Erroneous findings of fact and conclusions of law

11. Finding No. 6 is erroneous in stating that,

“Modern, on or about June 19, 1955, sold and delivered to National two shiploading structures known as the ‘jury rigs’ and shown in Exhibit AM.”

The evidence is that the jury rigs were only partially constructed by Modern Crane and partially constructed by National (R. 117).

12. Finding No. 7 is erroneous in stating that,

“In July or August of 1955, the ‘jury rigs’ shown in Exhibit AM were modified by the addition of a ‘snubber spring’ and ‘jib boom.’ ”

The evidence is that the jib boom was not added to the jury rig until after Kierulff's employment by National, after October 15, 1955 (Tr. 93, Kierulff Dep. 512).

13. Finding No. 8 is erroneous in stating that

“In July of 1955 National employed Modern to construct an improved design of a shiploading structure. Accordingly, in July of 1955, the first 16 foot structure, which is shown in the patent in suit No. 2,919,042, was sold and delivered by Modern to National.”

The evidence is that only a part of the first 16 ft. structure (ring-shaped turntable rig) was sold and delivered to

National and that a substantial part of the structure was to have been supplied by National. The parts to have been supplied by National were not completed or assembled with those parts supplied by Modern until after Kierulff joined National on October 15, 1955 (R. 152, 156).

14. Finding No. 9 is erroneous in stating that

“in July or August of 1955 National invited T. W. Buchholz, vice-president of defendant, to the National premises to see and observe * * * the 16 ft. structure shown in the patent in suit No. 2,919,042.”

Mr. Buchholz' testimony is that he *never* saw the 16 ft. structure in operation at the National Scrap Yard (Dep. 88, 89). Furthermore, the 16 ft. structure was not even in existence in July or August 1955 (Tr. 152, 156).

15. Finding No. 10 is erroneous in stating that,

“In July or August of 1955, T. W. Buchholz and Ray Ponsen, another employee of defendant, entered the National premises to see and observe the National ship-loading structures shown in Exhibits AM, BD and BE. At the time of said visit, plaintiff was present, knew the nature and purpose of the visit, had the opportunity to inform Messrs. Buchholz and/or Ponsen that he objected to their seeing and observing the said shiploading structures but failed to so do.”

Kierulff had no right or duty to object to the alleged visit of either Messrs. Buchholz or Ponsen because Kierulff was not even an employee of National during the stated times and had no authority over the admission or exclusion of personnel to National's scraploading yard. Still further, exhibits BD and BE illustrate the jury rig with the jib boom which, according to the evidence, did not come into being until after October 15, 1955 (Tr. 93, Kierulff Dep. 512). (See *M'Millin et al. v. Barclay et al.*, 16 Fed. Cas. 302).

16. Finding No. 12 is erroneous for the same reasons urged in support of the objection to finding No. 10.

17. Finding No. 13 is erroneous in stating that

“a few days after the visit referred to in Finding 12 [July or August, 1955], National gave T. W. Buchholz permission to send his fabricators to the National premises to sketch the National shiploading structures shown in Exhibits AM, BD and BE, and shown in the patent in suit No. 2,919,042. At this time National etc.”

The evidence is that the rigs with the jib boom illustrated in Exhibits BD and BE and the patented rig were not in existence during the stated times (Tr. 93, 170-SS). Further, the finding in regard to Kierulff's lack of complaining is founded on a faulty premise. Kierulff had no right or duty to complain because he had no patent or patent application during the stated times. (See *Marsh v. Nichols*, 128 U. S. 605).

18. Finding No. 14 is erroneous in referring to loading structures as illustrated in Exhibits BD, BE and the patent in suit as being in existence during July and August, 1955. The evidence is clearly that such structures were not in existence until after October 15, 1955 (Tr. 93, 170-SS).

19. Finding No. 15 is erroneous in stating that

“at the time of this visit [August, 1955] plaintiff knew of defendant's intent to build three shiploading structures shown in Exhibits AM, BD, BE and in the patent in suit No. 2,919,042, but failed to voice any objection thereto.”

There is no evidence to support the finding that Kierulff knew of Metropolitan's intent to build shiploading structures. Indeed, Buchholz testified that he would never have built a scraploader of the jury rig design, i.e., the design illustrated in exhibits AM, BD and BE (Dep. 10).

20. Finding No. 18 is erroneous in stating that

“at no time during the period July, 1955 to January, 1960 did plaintiff * * * assert any rights in and to said structures.”

Metropolitan did not begin to use the patented structure until November or December of 1955. The evidence is, however, that in August, 1955, Buchholz knew of Kierulff's proprietary rights in the design (Dep. 53).

21. Finding No. 21 is erroneous in stating a conclusion of law. Kierulff was under no duty to complain because during the period prior to the issuance of his patent he possessed no enforceable right. (*Marsh v. Nichols*, 128 U. S. 605)

22. Finding No. 22 is erroneous in that Metropolitan knew that Kierulff claimed proprietary rights to a structure corresponding to the patent in suit. The evidence is that Metropolitan ignored the proprietary notice and willfully and deliberately copied the structure which was later to become patented (Buchholz Dep. 53, Tr. 467).

23. Finding No. 23 is erroneous in stating that

“As a result of plaintiff's acquiescence for a period of four and one-half years, defendant acquired an implied license in the nature of a ‘shop-right,’ namely, an irrevocable, non-exclusive, non-assignable and royalty-free right to make and use the machine described in the patent in suit No. 2,919,042.”

First, the finding is an erroneous conclusion of law. Second, plaintiff did not acquiesce, he simply had no enforceable right until his patent issued.

24. The conclusions of law are substantially repetitions of the findings of fact which are not only unsupported by the evidence, but fly in the face of testimony given by Buchholz. The conclusions of law are therefore based on

faulty factual premises and further are not founded on any acceptable legal theory or doctrine. For example, conclusion of law No. 1 is a restatement of the Trial Court's judgment. Conclusion of law No. 2 states that Kierulff was under a duty to assert his rights. The erroneous nature of this latter conclusion is the primary basis of this appeal.

SUMMARY OF ARGUMENT

A. License

(1) A holding of implied license, after hearing evidence on validity and infringement, can have legal significance only if the Trial Court was convinced that appellee was using the patented invention (infringement) and that the patent was valid. If the patent is either invalid or not infringed, a holding of implied license is a futile judicial gesture.

(2) Appellee did not obtain an implied license, or license by estoppel, because at the time appellant observed the scraploaders in use at appellee's scraploading yard, he had no enforceable right and no duty to complain, and appellee did not change his position in reliance on appellant's silence.

(3) Appellee could not have received a license from National (a stranger to this action), because National, at most, had only a personal and non-transferable "shop-right".

a. The defense of equitable ownership in a stranger to the action (National) is not available to appellee.

B. Public use

(1) The jury rig cannot constitute "public use" as it was substantially different in design from the patented invention.

(2) The jury rig cannot constitute "public use" of the patented invention, as its use was understood to be experimental by the inventor, the customer and others closely associated with the use.

C. Partial conclusion of the "basic" issues

D. Prior sale

Appellant's mere "offer to sell" to appellee was not a "sale" within the meaning of the patent law, as the offer was based on a "made-to-order" proposal.

E. Prior art

(1) The patented invention solved a problem of such magnitude that Metropolitan had refrained from returning to the scraploading business until it had seen and copied Kierulff's invention.

(2) The invention is of great commercial success and, therefore, the presumption of validity is strengthened.

(3) The presumption of validity is further strengthened because the patent was granted, only after thorough consideration by the patent office.

(4) The presumption of validity is further strengthened because both expert witnesses testified that the claimed combination was novel.

F. Infringement

(1) Metropolitan has admittedly appropriated Kierulff's patented invention, and each of the claims reads directly on the accused apparatus.

(2) There is no file wrapper estoppel because the claims read directly on the accused apparatus and equivalents are not relied upon.

G. Damages and attorney's fees

In view of the admitted falsification of real evidence, the contradictory testimony given by three of appellee's witnesses, the dispute in open court between appellee's counsel and one of his witnesses regarding the veracity of his testimony, and the wilful and deliberate copying of appellant's invention, this case qualifies as exceptional under 35 U. S. C. §§284 and 285.

ARGUMENT

A. License

- (1) **A holding of license, after hearing evidence on validity and infringement, can have legal significance only if the Trial Court was convinced that appellee was using the patented invention (infringement) and that the patent was valid. If the patent is either invalid or not infringed, a holding of implied license is a futile judicial gesture.**

The Trial Court held

“that plaintiff, in 1955, granted to defendant an implied license in the nature of a ‘shop-right,’ namely, irrevocable, non-exclusive, non-assignable right to make and use the machine described in the patent in suit.” (R. 388).

This holding was made after the Trial Court had heard all the evidence on validity and infringement and was fully apprised of the various defenses.

By definition, a license is a conveyance of a property right (Patent Licenses by Ellis, 3rd Edition, Section 1). In the instant case, the Trial Court held that the conveyance in 1955 was of a right to use the patented invention. Appellee, since 1955, has used only scraploaders corresponding to the patented rig. If appellant's patent is invalid, it

was *void ab initio* and appellee would have no need for a court-ordained right to use the invention. Further, since the alleged conveyance was not granted by contract, and there was no consideration involved, it must be bottomed (if it exists at all) on considerations of estoppel. One of the considerations is that appellee would be damaged if it were deprived of the right to use the patented invention. Obviously, appellee would be damaged only if it were using the invention. Thus, in finding implied license the Court necessarily concluded that the patent was valid and infringed, *a fortiori*. We are mindful of the Court's language in the amended Order (R. 400) that it had not reached the issues of validity and infringement. We submit, however, that after hearing all the evidence on validity and infringement, a holding of implied license can only be conditioned upon a tacit finding of validity and infringement.

We shall now endeavor to demonstrate that the holding of implied license is without sound foundation in fact or law.

- (2) Appellee did not obtain an implied license, or license by estoppel, because at the time appellant observed the scraploaders in use at appellee's scraploading yard, appellant had no enforceable right and no duty to complain, and appellee did not change its position in reliance on appellant's silence.**

In the latter part of 1955, or the early part of 1956, (the period when the Trial Court held that appellee obtained an implied license) the only event which involved both parties was appellant's witnessing of appellee's scraploaders in operation.

Although the Trial Court offered no reasons for its decision, we surmise that it was founded upon the following observation made by the Court during trial (Tr. 478):

“Would it be your view that a man can stand idly by claiming the invention and seeing others practice it and say nothing and permit them to practice it all the time he is prosecuting the application over a period of years, say, and then come in and hold it infringes it?”

The evidence is that appellant saw the scraploaders in January or February of 1956 (Tr. 466). During that period of time, or for that matter, any other period of time, the parties were total legal (as well as factual) strangers. Appellant never induced appellee to copy his design; appellee copied it for its own profit and, therefore, at its own peril.

A fact of fundamental importance is that appellant, in the early part of 1956, owned only an invention. He had not yet filed his patent application for letters patent, which was filed October 8, 1956. Appellant had no enforceable right, indeed not even an inchoate right, at the time he witnessed the use of his invention. “The discoverer of a new process or trade secret * * * has no exclusive right to it against the public, or anyone who discovers it by fair means * * *.” (*Speedry Chemical Products, Inc., et al. v. The Carter’s Ink Company* (2nd Cir., 1962), 304 F. 2d —.) It is the patent, and only the patent, which vests the exclusionary right in the patentee (35 U. S. C. §154).

The Supreme Court, as long ago as 1888, commented on the *sui generis* nature of patent rights in the case *Marsh v. Nichols, Shepard and Company*, 128 U. S. 605, 612 as follows:

“The patent is the evidence of his exclusive right to the use of the invention; it therefore may be said to create a property interest in that invention. Until the patent is issued there is no property right in it, that is, no such right as the inventor can enforce. Until then there is no power over its use, which is one

of the elements of a right of property in anything capable of ownership. In *Gayler v. Wilder*, 10 How. 477, 493, this subject was to some extent considered, when the court, by Chief Justice Taney, said: 'The inventor of a new and useful improvement certainly has no exclusive right to it until he obtains a patent. This right is created by the patent, and no suit can be maintained by the inventor against any one for using it before the patent is issued.' And again: 'The monopoly did not exist at common law, and the rights, therefore, which may be exercised under it cannot be regulated by the rules of the common law. It is created by the act of Congress, and no rights can be acquired in it unless authorized by statute, and in the manner the statute prescribes'."

Thus, at the times appellant witnessed the use of his invention, he had no enforceable right. It would seem self-evident that in the absence of an enforceable right there could be no duty on appellant to complain. And, if there were no duty, there could be no implied license by estoppel.

In *M'Millin et al v. Barclay et al* (Cir. Ct., Pa., 1871), 16 Fed. Cas. 302, the Court rejected the defense of equitable estoppel based on the use of the invention by defendant and others during the pendency of plaintiff's patent application. At page 307, the Court said,

"I have failed to discover any evidence upon which an equitable estoppel in favor of the respondents can rest. It must necessarily grow out of some declaration or act of the applicant, by which they were induced to believe that they might rightfully or innocently use the invention now claimed by him. If they appropriated it without consulting him, and he was *passive* when he knew it, because he was *powerless* to prevent them, he is not estopped from asserting his right when he is in a condition to enforce it. If they took the risk of using what they did not own, the owner's helplessness then will not shield them from ac-

countability to him now. This is the only effect of the proof; for, although the applicant publicly used his invention after he applied for a patent, he did not intend to abandon it, as has been already shown; and, as he had a clear right so to use it, the law does not presume from that fact that he assented to its use by others. *Ryan v. Goodwin* (Case No. 12,186). Nor is this supposed estoppel invigorated by the fact that invasion of the patentee's rights has been widespread, and that all who may be found in that category may be held liable accordingly. Whoever reaps where he did not sow, wrongfully appropriates what belongs to another, and equity will not stay the hand of the rightful owner of the harvest against him." (Emphasis added.)

In another case in point, *McWilliams Manuf'g Co. v. Blundell* (Cir. Ct., R. I., 1882), 11 Fed. 419, the Court rejected the defense of equitable estoppel, also based on use by defendant. Plaintiff proved that his patent was defective while his invention was being used by defendant and, therefore, he was powerless to complain. The Court said, at page 421,

"The defendant further contends that there has been an acquiescence for years on the part of McWilliams and his assignee in his use of the patent. We must remember, however, that the reissued patent was not granted until March, 1880, and that no prior use under the defective patent can authorize the use of the invention after the issuing of the renewed patent." (Citing cases.)

The age of the above cited cases, and the lack of any new cases, would seem to indicate that the proposition, "there can be no duty to complain where there is no violative right", has been self-evident for many years.

Appellant clearly was under no duty to complain. The existence of a duty, however, is only one element of es-

toppel; appellee must also prove reliance and consequent damage.

There was no proof of reliance or damage. In fact, the opposite was demonstrated. Appellee testified that it initially ordered three rigs of the patented type in 1955 (Tr. 210), and as of the time of this lawsuit it still had only three units in operation. The rigs were ordered prior to appellant's visit to the Metropolitan scrapyard, so manifestly, there has been no change of position in reliance on appellant's silence. Since there has been no change in position, there can be no consequent damage.*

Thus, accepting appellee's testimony, so that the evidence for consideration may be incontrovertible, the holding of implied license is wholly without foundation in law.

(3) Appellee could not have received a license from National (a stranger to this action) because National, at most, had only a personal and non-transferable "shop right."

It is recalled that when appellant invented the jury rig (June 1955), he was employed by Modern Crane. Modern Crane fabricated only part of the jury rig for National (Tr. 117). Appellant at that time was employed as an engineer, performing routine engineering jobs (Tr. 43). There was no employees invention agreement with Modern Crane (Tr. 97).

Appellant invented the patented ring-shaped turntable rig on his own time and at his home (Kierulff Dep. 494). He sold drawings of his invention to National on a fee basis for \$600 (Tr. 141) but restricted the use of the drawings (Exhs. 14-18) to National's use only (Exh. R). National admittedly never bargained for any other rights in

* It is also to be recalled that appellant moved diligently by filing a petition in the Patent Office to expedite the prosecution of his patent application after he witnessed the use of his invention.

the invention, illustrated in the drawings, beyond the right to use (Schapiro, Tr. 171, 172).

Three written documents (Exhs. 13, P and R) were offered which evidenced the intention of National and appellant and the rights to which each believed it was entitled pursuant to their relationship.

Exhibit 13 is a letter from appellant to National (mistakenly dated June 2, 1955 instead of July 2, 1955) in which appellant proposed an agreement, whereby he was to receive a fee in proportion to the savings produced by his invention. This proposal was rejected by National (Tr. 140).

Exhibit R grew out of the rejection of Exhibit 13 and represents a bill from appellant to National for the drawings of the ring-shaped turntable rig (Tr. 141). This Exhibit is significant because it indicates appellant's intention that the drawings were for National's exclusive use only. Appellant thereby expressly declared his rights to the design, and, in fact, placed a restriction on the use of the drawings delivered to National. National paid the bill, ostensibly accepting the restriction.

Exhibit P, perhaps more than the other Exhibits, reflects the understanding of the relationship between National and appellant. This is an agreement entered into by National and appellant on July 2, 1959, as part of an interference settlement. The agreement provides National with a license to use, and to make, but only for its own use, the invention of the patent in suit. The agreement, in effect, is a "shop-right" reduced to writing. As a result of the interference proceeding, National acquired positive knowledge of Kierulff's claim to ownership of the invention. If National believed it was the owner of the invention (as contended by appellee) it had full opportunity to bring an action to compel assignment of Kierulff's patent application. National, however, never made claim to

Kierulff's invention but, in contradistinction, settled the interference by assigning its patent application to Kierulff and accepted in return only a written license to use, a license it previously acquired by reason of purchasing the drawings. Thus, National acknowledged appellant's superior and exclusive rights in and to the invention.

Appellee argued below that National owned the invention apparently because appellant was paid for the drawings which illustrated the invention. National, by accepting the restricted license from appellant, manifestly did not share in appellee's sophistry.

The law does not support appellee's contention either. The law is in accord, that in the absence of an express agreement to assign, the employer merely obtains a shop-right, unless the employee was hired specifically to invent. The undisputed testimony on this point is from the employer, Schapiro (Pres. of National), who stated that there was no discussion regarding inventions or their disposition (Tr. 171).

The classic cases on "shop-right" are *Hapgood v. Hewitt* (1886), 119 U. S. 226, and *United States of America v. Dubilier Condenser Corp.* (1933), 289 U. S. 178.

In the *Hapgood* case, the corporation claimed that Hewitt, an employee, made the invention in performance of his employment contract and since he was paid for his labors by the corporation, it was the equitable owner of the invention; a fact situation similar to the one at bar.

The Court held that the corporation obtained only a shop-right and not title to the invention. At 233, the Court said:

"There is nothing set forth in the bill, as to any agreement between the corporation and Hewitt, that the former was to have the title to his inventions or to any patent that he might obtain for them. The utmost that can be made out of the allegations is, that

the corporation was to have a *license* or *right to use* the inventions in making ploughs.”

A similar question was presented to the Court in the *Dubilier* case. At 187, 188, the Court said:

“But a manufacturing corporation, which has employed a skilled workman, for a stated compensation, to take charge of its works, and to devote his time and service to devising and making improvements in articles there manufactured, is not entitled to a conveyance of patents obtained for inventions made by him while so employed, in the absence of express agreement to this effect.”

And at 188-189

“Recognition of the nature of the act of invention also defines the limits of the so-called shop-right, which shortly stated, is that where a servant, during his hours of employment, working with his master’s materials and appliances, conceives and perfects an invention for which he obtains a patent, he must accord his master a non-exclusive right to practice the invention. [Citing cases]. This is an application of equitable principles. * * * But the employer in such a case has no equity to demand a conveyance of the invention which is the original conception of the employee alone, in which the employer had no part.”

See also Robinson on Patents, Section 832.

We have again bottomed our argument on testimony primarily from appellee’s witness Schapiro in order to obviate questions of fact. We submit that under the well settled law, National obtained at most only a shop-right which was incapable of transfer. Appellee, therefore, could not have obtained a license from National.

a. The defense of equitable ownership in a stranger to the action (National) is not available to appellee.

It is admitted (R. 310) that appellant is the record owner of legal title of the patent in suit. According to Robinson on Patents, Section 975, equitable interests in a stranger may not be set up in a suit at law to defeat the claims of the record owner of the patent. In particular Robinson says,

“This defence rests upon the doctrine that at law no one can sue for an infringement unless he is a legal owner of the monopoly,—that is, unless he is a patentee, an assignee, or a grantee enforcing his rights within his own territory. Any defects in these legal titles may be taken advantage of under this defence, but equitable interests cannot be set up in a suit at law to defeat the claims of the record owner of the patent.”

This principle was followed in *Graham v. McCormick and others* (Cir. Ct. Ill., 1880), 11 Fed. 859. In that case defendant argued that plaintiff had contracted to assign his rights to a third party named Werdens and, therefore, was without standing to bring the action. The Court rejected the defense, saying at page 865,

“The evidence tends to show that a controversy arose between A. B. Graham and the Werdens as to the contracts of November 25, 1865. The former insisted that the Werdens had not complied with their contract, and from that or some other cause there seems to have been no additional assignment made to the Werdens of any interest in the patent of 1868; and, as already stated, that patent was issued to Graham alone. We think that upon this state of facts, there being no controversy about the validity of the assignment by A. B. Graham to the plaintiff of the patent of 1868, that the plaintiff must be considered as having the legal title

to that patent, and consequently has the right to maintain this suit in his own name. Whatever equities there may be between the parties to the contract of November, 1865, can be adjusted in a controversy between themselves or their legal representatives. We do not think that the defendant can claim that the facts stated constitute a defence to this action.”

As we mentioned previously, the Trial Court apparently rejected the defense of an alleged oral license from National, as the decision refers specifically to an implied grant directly from appellant to appellee (R. 388).

B. Public Use

(1) The jury rig cannot constitute “public use” as it was substantially different in design from the patented invention.

The jury rig was used in June 1955, more than one year prior to the filing date of the patent in suit (October 8, 1956).

Our contention is twofold: first, the use of the jury rig was experimental and, secondly, even if the use were considered “public”, the design of the jury rig was materially different from the patented rig so as not to constitute a bar. We shall discuss first the differences in the design.

According to 35 U. S. C. §102, a person shall be entitled to a patent unless “*the invention was * * * in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States.*” (emphasis added).

The “invention”, of course, means the claimed invention. In other words, the public use which invalidates an invention must be a public use of the very invention patented. (*Cline Electric Mfg. Co. et al. v. Kohler* (7th Cir., 1928), 27 F. 2d 638, 641).

It is recalled that the fundamental differences between the jury rig and the patented rig resided in the shape of the turntable, the manner of supporting the chute from the turntable and the capability of rolling the trolley on the hatch bridge.

The first and most important difference is that the patented rig comprises a ring-shaped turntable, whereas the jury rig employed a trapezoidal turntable. Although, at first blush, the difference may appear trivial, a careful analysis reveals the fundamental and substantial character of this change. We respectfully direct the Court's attention to the searching analytical comparison by Dr. Sjogren in his cross-examination (Tr. 309-312, 364 *et seq.*).

Briefly, by superimposing a ring-shaped turntable on the track, the underlying track is fully protected against falling scrap. In the jury rig the turntable comprised four straight sections in the form of a trapezoid which extended over four arc-segments of the underlying track. The remaining portions of the track were unprotected against falling scrap which often fouled the track and interfered with the rotation of the turntable. Further, the exposed portions of the track were vulnerable to bending when hit by heavy scrap.

In the patented ring-shaped turntable design, the turntable is continuously and uniformly supported along its entire perimeter by a plurality of rollers on the track. In this manner, no section of the turntable is vulnerable to bending or damage by falling scrap. In the jury rig the turntable was supported at only three points for triangular stability. These three points were supported and the remaining part of the turntable simply connected these three points and were unsupported. The unsupported portions, of course, were extremely vulnerable to bending and damage when hit by heavy scrap.

Since the heavy chute is supported on the turntable, in the patented ring-shaped design, the weight of the chute is uniformly transferred throughout the structure by means of the continuous support provided by the coextensive track and plurality of rollers. This uniform distribution of load and shock is extremely important during the travel of the scrap down and off the chute. In the jury rig the weight of the chute was not evenly distributed throughout the structure as the upper part of the chute was suspended on a bar supported by two of the three rollers, and the lower part of the chute was supported from a section of the turntable supported by the third roller.

The shortcomings of the design of the jury rig were sufficiently serious that after Kierulff joined National as an employee, further changes were made to the turntable, such as adding the jib boom (see page 15, *supra*), in an attempt to reduce breakdown time. The trapezoidal design was basically faulty, however, and no further rigs of that design were made again.

Claim 1 expressly calls for a ring-shaped turntable and claims 2 and 3 define the shape by geometric reference, as we shall describe later in the brief.

We shall now consider the significance which the Patent Office, National and Metropolitan attributed to the difference in turntable design.

In regard to the Patent Office, the most pertinent reference cited by the Examiner was Patent No. 2,186,292, to Guhlin et al (hereinafter called Guhlin). The Guhlin patent discloses a circular track and a polygonal (five sided) turntable. Although there are several differences between the Guhlin patent and appellant's invention, a primary difference is in the shape of the turntable. This distinction, therefore, is at least partially responsible for the issuance of the patent in suit.

In regard to National, after seeing the jury rig in operation only one time, it agreed with Kierulff that a different scraploader should be designed, which was not encumbered by the shortcomings of the trapezoidal turntable (Schapiro Tr. 184). The ensuing patented design solved the problems and is the only design in use by National or Metropolitan.

Furthermore, Schapiro (Pres. of National) testified that at the time he filed the National application jointly with Fabian, he believed that the ring-shaped turntable was a major change and a patentable difference over the trapezoidal turntable (Tr. 180, 181). Significantly, his belief that there was a patentable difference was founded on the advice of his patent counsel (Tr. 180).

In regard to appellee, it considered the difference between the trapezoidal turntable and the ring-shaped turntable so important that as an officer, Buchholz testified, he would never have built a trapezoidal rig (Dep. 10); that he would have preferred the old methods (Dep. 10, 11) which, it is recalled, were so unsatisfactory as to have discouraged appellee from returning to the scrap business after the war.

We submit that as a result of the acknowledged differences between the jury rig and the patented rig, there clearly was no "public use".

In a relevant case, *Campbell v. New Idea Arc Light Co.* (S. D., N. Y., 1909), 175 Fed. 115, at 116, 117, the Court made the following comment which is apropos here,

"Did he so permit a public use of the lamp which is the subject of the patent? I think not. The testimony satisfies me that he put out and into public use unsuccessful lamps, which, while resembling in external appearance his patented lamp, did not embody that nice adjustment of parts which is the gist of his patent as obtained."

[See also *Diamond Patent Co. v. S. E. Carr Co.* (9th Cir., 1914) 217 Fed. 400, 405]

Although the jury rig superficially resembles the patented rig, it "did not embody that nice adjustment of parts [the ring-shaped turntable] which is the gist of his [Kierulff's] patent as obtained."

In another pertinent case, *Dowles v. Hooks* (D. C. N. C., 1954), 125 F. Supp. 96, at 99, the Court said:

"Under the patent statutes, 35 U. S. C. §31 [now §102] the public use which invalidates an invention is a public use of the very invention patented."

The very invention patented is the scraploader with the ring-shaped turntable. The ring-shaped turntable rig was not used in any manner, experimentally or otherwise, until October 24, 1955, within one year of the patent filing date of October 8, 1956.

In *Goodwin et al v. Borg-Warner Corp. et al* (6th Cir., 1946), 157 F. 2d 267, a situation similar to the instant one was presented to the Court. The defendant in that action argued that an earlier device of somewhat different design had gone into public use and should, therefore, be a bar to the patent. The Court rejected the defense, saying at page 272,

"The public use which invalidates an invention under §31, 35 U. S. C., 35 U. S. C. A. §31 is a public use of the very invention patented. (Citing cases) Since the integral type clutch plate is not the Daukus invention, the volume of exhibits and the testimony concerning the alleged prior public use of Ahlene and Reed, 1,889,698 do not affect the patentability of Daukus."

In the instant case, appellee's evidence concerns the alleged public use of the trapezoidal turntable and not the patented ring-shaped turntable.

In this argument on the design of the jury rig vis-a-vis the patented rig, there is no dispute regarding the configuration of the designs. We accept the testimony of

defendant's witnesses Schapiro and Buchholz from the viewpoint of presenting to this Court incontroverted evidence. We submit that such evidence considered with the applicable law, can only lead to a conclusion that the patented invention was not in "public use" more than one year prior to the filing date of October 8, 1956.*

(2) The jury rig cannot constitute "public use" of the patented invention, as its use was understood to be experimental by the inventor, the customer and others closely associated with the use.

In order for a "public use" bar to apply, there must be identity between the apparatus in use and the patented invention, and in addition the use must be public as distinguished from experimental. Both requirements must be satisfied for the bar to apply. In the preceding section we endeavored to show the lack of identity between the jury rig and the patented rig. In this section, we shall demonstrate that the use was, in fact, experimental.

At the outset, we would like to review briefly a few essential principles governing public use. First, it is immaterial whether the use is conducted privately or in public, as certain inventions (such as the invention involved herein) do not lend themselves to laboratory experimental use. Secondly, it is immaterial whether a sale was made or profit earned, if the profit or sale is incidental to the experimental nature of the use. It is also important that the inventor maintain control over his invention. We shall cite cases in support of these well known propositions shortly.

The burden of proof is on the party raising the defense, and the Supreme Court has held that the burden requires proof which goes beyond a reasonable doubt.

* The first use of the ring-shaped turntable rig was October 24, 1955 (Schapiro Tr. 170-SS).

The classic case on the burden of proof is *Washburn, etc. Co. v. Beat Em All Barbed Wire Co.* (1891), 143 U. S. 275, 285. The Court made the following comment which is characteristic of the testimony given by appellee's witnesses in the instant case. The Court said,

"Indeed, the frequency with which testimony is tortured, or fabricated outright, to build up the defense of a prior use of the thing patented, goes far to justify the popular impression that the inventor may be treated as the lawful prey of the infringer. The doctrine was laid down by this Court in *Coffin v. Ogden*, 18 Wall, 120, 124, that 'the burden of proof rests upon him,' the defendant, 'and every reasonable doubt should be resolved against him. If the thing were embryotic or inchoate; if it rested in speculation or experiment; if the process pursued for its development had failed to reach the point of consummation, it cannot avail to defeat a patent founded upon a discovery or invention which was completed, while in the other case there was only progress, however near that progress may have approximated to the end in view!'"

[See also *Parker v. Stebler et al.* (9th Cir., 1910), 177 Fed. 210, 213, where this Court acknowledged the rule that oral testimony must be so clear and satisfactory as to convince the Court beyond a reasonable doubt. Judge Mathes held that appellee's evidence was not so convincing (Tr. 454)].

We shall now examine the fact situation.

Appellant testified that although the jury rig was used in June 1955, the primary purpose of the use was experimental (Tr. 116, 136). The jury rig was of a new and untried design, and its performance was incapable of prediction (Tr. 116). Because of the nature of scraploading, it was impractical, if not impossible, to test the rig in any way other than actually using it for loading ships (Tr. 142-144).

The rig could not practically have been tested secretly because of its bulk, its location and the manner of opera-

tion. The rig measured about 8 feet high, and the hatch bridge was about 30 feet long and 17 feet across (Exhs. 14-18). When not in use, it was located on the dock, and when desired for use, a crane having a tall boom would lift it, carry it through the air and place it in position on the ship. In addition to the longshoremen on the dock, the ship was usually of foreign origin and the ship's crew, of course, had freedom of the ship and the scrapyard. The rigs, therefore, were necessarily used in view of those in the area (Judge Mathes Tr. 451-453), and to have attempted an allegiance of secrecy from each foreign crew and each shift of longshoremen would have been unrealistic, if not ludicrous.

Thus, the inventor considered the use of the jury rig experimental, even though the rig was sold for profit to National. Since National was the customer, it is of particular significance to examine whether it considered its purchase to be that of an experimental rig.

For enlightenment of whether National understood it was purchasing an experimental rig, we have the testimony of its president, Mr. Schapiro and the shiploading supervisor, Mr. Fabian. Mr. Schapiro testified that at the time the jury rig was purchased, Kierulff and National were investigating the feasibility of the "idea" (Tr. 184). The program of testing was not completed until after use of the ring-shaped turntable rig, and during that period, they "tried this and that and kept trying to improve it" (Tr. 185).

Mr. Schapiro further testified that appellant retained control over the design considerations of the rig during the experimental use (Tr. 170-WW, 170-XX), which continued for a substantial period of time.

Mr. Fabian, the only other person who had intimate knowledge of the problems involved in scraploading and the intended purpose of the jury rig, testified in the pre-

trial deposition that the use was primarily experimental (Dep. 9, 10, 35).

We submit that such testimony clearly and unequivocally establishes the experimental character of the use. It would seem that such testimony is completely dispositive of the issue of public use.

In addition, however, to the uncontroverted testimony of Schapiro and Fabian, there are two independent documents, written by Kierulff and National well in advance of this litigation, which further substantiate that the use of the jury rigs was experimental.

It is recalled that the jury rigs were used in June, 1955, and the ring-shaped turntable rig was used October 24, 1955 (Tr. 170-SS). The first of these documents is the patent application filed by Messrs. Schapiro and Fabian on a scraploader. The first claim of that application read on the jury rig and the second claim was specific to the ring-shaped turntable patented rig (Tr. 179). At the time the National application was filed, Messrs. Schapiro and Fabian took solemn oath that they read and understood the claims and that the subject matter thereof was not in public use more than one year prior to the filing date of the application, which was February, 1957 (Tr. 179, 180). Thus, in effect, both swore that neither the jury rig nor the ring-shaped turntable rig was used publicly prior to February 1956. National, who was the customer of the jury rig and in the best position to know the character of the purchase and use, has stated many times through Schapiro and Fabian, with clarity rarely found in lawsuits, that the use was experimental.

The second document is a letter from Kierulff to a scraploader in Texas (Exh. AR), commenting on the value of the jury rig and stating that it was a "pioneer experiment" (Tr. 136). The letter was written while Kierulff was employed at National, at least four years prior to the inception of this lawsuit.

In regard to such documentary evidence, the law is that statements contained in documents, written prior to anticipation of litigation, are accorded great weight in determining intent. *Well Surveys Incorporated v. McCullough Tool Company* (D. C. Okla., 1961), 199 F. Supp. 374, 396.

On the question of public use, the law is in substantial accord that mere sale or use for profit will not defeat experimental use. For example, in *Reo Motor Car Co. v. Gear Grinding Mach. Co.* (6th Cir., 1930), 42 F. 2d 965, 968 the Court said,

“* * * whether this third defense is good depends wholly on the application of the familiar rule that so long as the use by the inventor, or even sales to the public, can fairly be considered experimental and collateral to the development of the invention in its complete form, the bar does not begin to run. (Citing cases.) We think that it, like other invalidating defenses, should be made out clearly and to the point of conviction; and we see no principle, in the precedents or in the policy of the statute, which would require a valuable invention to be lost by permitting the bar to begin to run while the invention, whether of machine or process, is being gradually improved and developed up to the point of ascertaining whether it has real utility. Nor can it rightly be said that a public use of the developing and incomplete invention—incomplete as finally claimed—can nevertheless operate as the public use bar because adding the final element of perfection did not involve invention as compared with the earlier form to which it was added. Whether a claim has patentable invention is not to be tested by comparing with the patentee’s earlier, unpublished, progressive steps. (Citing case.)

Further, whether the use is conducted in public or private is immaterial as long as the primary purpose of the use is experimental. In *Merrill v. Builders Ornamental Iron Co.* (10th Cir., 1952), 197 F. 2d 16, 19, the Appellate Court for the Tenth Circuit said,

“Whether use of an invention is public or private does not necessarily depend upon the number of persons to whom its use is known. The determinative factor is whether the use is made in good faith for purposes of experiment in testing the qualities and operation of the device or apparatus.”

[See also *Elizabeth v. Pavement Co.* (1877), 97 U. S. 126, 134; and *Research Products Co., Limited et al. v. Tretolite Co. et al.* (9th Cir., 1939), 106 F. 2d 530]

The Courts have also recognized that some inventions are not amenable to laboratory testing and that an actual use is necessary to determine the technical feasibility of the invention. For example, in the case of *Powell v. Pou-pitch* (C. C. P. A., 1948), 167 F. 2d 514, 516, where the invention related to metal fasteners for coupling airplane cowlings, the Court said,

“* * * in view of the strains and vibrations to which parts of an airplane are subjected in use. * * * It would be impossible to determine whether or not a cowling sheet fastener would operate satisfactorily without making tests in actual service.”

In an attempt to carry its burden, appellee tried to show public use by oral testimony. The cast of witnesses it presented was Schapiro, Shanley, Ponsen, Stone and Buchholz.

We have discussed Schapiro's testimony and we submit it clearly supports our position that the use was experimental.

We have discussed Shanley's testimony previously* and the falsified drawing (Exh. BL) offered during his examination.

It is recalled that Kierulff, Schapiro and Fabian, testified that the first use of the ring-shaped turntable rig was

* *Supra*, pages 18, 19, 20.

October 24, 1955 (Schapiro Tr. 170-SS). The testimony came after referring to a shiploading chart (Exh. 25). These individuals are inventor, customer and scraploading supervisor, respectively, and their testimony is based on first-hand knowledge.

In addition to the falsified drawing (Exh. BL), Shanley proffered testimony that he saw the ring-shaped turntable rig on shipboard August 31, 1955. This was flatly contradicted by the testimony of all those witnesses who had first-hand knowledge of the use, and who testified that it was not used prior to October 24, 1955.

The third witness presented by appellee was C. M. Ponsen, vice president of defendant. He testified that during his first visit to National, he accompanied Buchholz, and saw two jury rigs in operation (Tr. 211). Mr. Buchholz contradicted Ponsen, however, and stated that the two devices were not in operation, but rather lying on the ground (Dep. 7, 8).

During his second visit, which was presumably in early August, Ponsen said that he saw the ring-shaped turntable rig in operation (Tr. 213). Although this testimony (as Shanley's) is contrary to the fact, its lack of fidelity penetrates more deeply. For example, Ponsen testified that he observed the ring-shaped turntable rig lying on the ground, observed it so carefully that he took measurements of it (Tr. 213). During trial, he was shown photographs (Exhs. BD, BE) by his attorney and identified the photographs as illustrating the rig which he saw (Tr. 213).

In cross-examination, however, it was revealed that the photographs illustrated not the rig with the round turntable, but the jury rig with the trapezoidal turntable (Tr. 218). Furthermore, the photographs show only the jury rig construction with the jib boom attached, which was not added until after plaintiff joined National, i.e., later than October 15, 1955 (Tr. 93, 94). Thus, Ponsen could not have seen the

ring-shaped turntable rig, and he could not have seen the rig illustrated in the photographs, as neither rig was in existence in August 1955.

The fourth witness, Stone, after hearing the examinations of Messrs. Shapiro, Shanley and Ponsen, admitted only to a vague recollection (Tr. 226).

In substance, that was Metropolitan's case on public use. It is recalled that "public use" is a question of fact (*Elizabeth v. Pavement Co.*, 97 U. S. 126). And, the Trial Judge, after hearing all of appellee's evidence, stated,

"You may argue it if you like, but I am fairly well convinced * * * that it was an experimental use, and under the circumstances it certainly couldn't have been private, a great many people had to see it. It wasn't intended to be a public use, in my view, and it was purely an experimental matter" (Tr. 450, 451).

Although we have commented on the testimony of Metropolitan's witnesses, it was not our purpose to direct our criticism *ad hos homines*. Rather, we wish only to direct the Court's attention to the general character of appellee's evidence on public use. We submit that the probative value of appellee's evidence on public use is negative and that *in toto*, the evidence incontrovertibly compels the legal conclusion that there was no public use of the invention.

C. Partial Conclusion of the "Basic" Issues

We have now completed our discussion on the two issues urged by appellee as being its basic defenses (Tr. 21). Not knowing, however, whether or not appellee has abandoned its sundry other defenses, we shall make a fair and full disclosure of all the defenses, and discuss the evidence, at least to the extent necessary, to show that it is incontrovertible and in favor of appellant.

D. Prior Sale

Kierulff's mere "offer to sell" to Metropolitan was not a "sale" within the meaning of the patent law, as the offer was based on a "made-to-order" proposal.

On the issue of prior sale, there are no facts in dispute. Kierulff submitted a proposal (Exhs. AT, AU) to Buchholz on or about August 23, 1955, and offered to sell Metropolitan a scraploader corresponding to the proposal. The proposal illustrated a rig of the ring-shaped turntable design.

At the time of the proposal, August 23, 1955, there was no corresponding rig in existence and none had ever been made. A part of the rig, namely, the hatch bridge and trolley, had been fabricated by Modern Crane for National and delivered, but the remaining and essential parts of the scraploader comprising the chute, the lower chute suspension means including the equalizer bar, and the upper chute suspension bar means were not obtained until after Kierulff joined National on October 15, 1955. As previously explained, Kierulff was responsible for completing the rig after his employment by National. The scraploader was first used on October 24, 1955.

The defense of prior sale is another bar defined by 35 U. S. C. §102. According to this section, a patent may be obtained unless,

"the invention was * * * in public use or *on sale* in this country, more than one year prior to the date of the application for patent in the United States." (Italics added)

Prior sale has been uniformly interpreted by the Courts to mean that the invention has been completed, delivered and accepted.*

* A different doctrine has been applied in some Circuits to stock or shelf items, where the invention is completed, on the shelf and available for immediate purchase. An item of this sort is on sale when it is made available for purchase. That doctrine is inapposite here.

A case in point is *B. F. Sturtevant Co. v. Massachusetts Hair & Felt Co.* (1st Cir., 1941) 124 F. 2d 95, 97. In that case, the defendant argued prior sale based on a contract to sell. The Court rejected the defense, saying,

“It is here held ‘that proof of a mere contract to construct from plans and to deliver in the future a machine or manufacture not proven to have been previously completed, falls short of proof that the machine or invention was “on sale”’. In further development the court in the case quoted from above said: ‘The putting “on sale” intended by the statute is more or less analogous to a public use, and has regard to actual and completed transactions, and not to agreements which contemplate both a future production and a future transfer of title.’ And again ‘under the defense that the machine was “on sale,” the burden rests upon the defendant to show that the machine existed as a complete article of sale, not on paper, but in fact. In the absence of such proof, the case is not brought within the statute * * *.’ *McCreery Engineering Co. v. Massachusetts Fan Co.*, 1 Cir., 195 F. 498, 501. To the same effect see *Burke Electric Co. v. Independent Pneumatic Tool Co.*, 2 Cir., 234 F. 93; and also 1 Walker on Patents Deller’s Edition, §85, in which it is said, citing the above cases and others, ‘where a specimen of an invention is built or made to order, it is not “on sale” till it is completed, delivered, and accepted.’”

See also *National Cash Register Co. v. American Cash Register Co.* (2nd Cir., 1910), 178 Fed. 79.

E. Prior Art

- (1) The patented invention solved a problem of such magnitude that Metropolitan had refrained from returning to the scraploading business until it had seen and copied appellant’s invention.**

Our strongest weapon in the arsenal of validity is Buchholz’ testimony that Metropolitan, after the war, had de-

cided not to return to the scraploading business because the "profit wasn't there" (Tr. 228, 235). Buchholz searched the coast for a solution to the problem but found none until he saw Kierulff's invention (Tr. 229, 235, Buchholz Dep. 61). Metropolitan then admittedly copied Kierulff's invention (Tr. 445, 467) and entered the business once again to become one of the largest scrap loaders on the West Coast.

We earnestly believe it would be difficult to find a more favorable testimonial in favor of invention.

The legal effect of copying is now well recognized as persuasive corroborative evidence of invention. *Diamond Rubber Co. of New York v. Consolidated Rubber Tire Co.* (1911), 220 U. S. 428, 441; *The Filtex Corporation v. Amen Atiyeh* (9th Cir., 1954), 216 F. 2d 443, 445; *G. H. Packwood Mfg. Co. v. St. Louis Janitor Supply Co.* (8th Cir., 1940), 115 F. 2d 958, 965; *Colgate-Palmolive Company v. Carter Products* (4th Cir., 1956), 230 F. 2d 855, 862; *Ric-Wil Co. v. E. B. Kaiser Co.* (7th Cir., 1950), 179 F. 2d 401, 404; *Trico Products Corporation v. Apco-Mossberg Corporation* (1st Cir., 1930), 45 F. 2d 594, 598; *Kurtz et al. v. Belle Hat Lining Co., Inc.* (2nd Cir., 1922), 280 F. 277, 281.

The Court in the last mentioned case, *Kurtz v. Belle, etc.*, made an interesting observation which is apropos here. At page 281,

"The imitation of a thing patented by a defendant, who denies invention, has often been regarded, perhaps especially in this circuit, as conclusive evidence of what the defendant thinks of the patent, and persuasive of what the rest of the world ought to think."

(2) The invention is of great commercial success and, therefore, the presumption of validity is strengthened.

The two largest scraploaders in the Los Angeles harbor, and probably on the West Coast, are using Kierulff's

invention. National is using the invention under license and Metropolitan is enjoying the benefit of the invention by infringement. In those two scrap yards, the invention has replaced all prior scraploading techniques.

Furthermore, the patented invention is of such great commercial value that even the jury rig (while it operated) saved approximately \$20,000 per shipload as compared to the prior method of scraploading (R. 330). It is interesting to note that if Metropolitan had loaded 50 ships since the inception of this suit (which is a very conservative estimate) it has saved over one million dollars by using Kierulff's invention.

The law is in substantial accord that commercial success is a factor to be considered in evaluating invention. *National Sponge Cushion Co., Inc. v. Rubber Corporation of California* (9th Cir., 1961), 286 F. 2d 731; *Georgia-Pacific Corporation v. United States Plywood Corporation* (2nd Cir., 1958), 258 F. 2d 124, certiorari denied 358 U. S. 884; *Norman v. Lawrence* (2nd Cir., 1960), 285 F. 2d 505; *Reiner v. I. Leon Co.* (2nd Cir., 1960), 285 F. 2d 501.

This presumption is particularly strengthened where the commercial success is a result of the invention satisfying an old or recognized want. (*Kaakinen et al. v. The Peelers Company* (9th Cir., 1962), 301 F. 2d 170)

(3) The presumption of validity is further strengthened because the patent was granted, only after thorough consideration by the Patent Office.

The Patent Office cited nineteen U. S. and foreign patents constituting the most pertinent prior art relied upon by Metropolitan (R. 301, 302). Indeed, the one patent singled out by Metropolitan's attorney, although not by its expert, is the patent to Guhlin, No. 2,186,292, which was cited by the Examiner.

To the bulging number of nineteen patents, Metropolitan has added eight more, making a total of 27 patents. In spite of the unusually large number of 27 patents, defendant-appellee's expert witness testified that the claimed combination was novel (Tr. 280). We submit that such testimony vis-a-vis the twenty-seven patents should be an epitaph for this defense.

In *Moon v. Cabot Shops, Inc.* (9th Cir., 1959) 270 F. 2d 539, 541, Judge Hamley, speaking for this Court, commented on the presumption of validity, as follows,

"A presumption of validity arises from the issuance of a patent. The presumption is predicated upon the expertness of the Patent Office acting within its specific field, and can be overcome only by clear and convincing proof. The burden of proof in such cases is upon the party attacking the patent, and reasonable doubts must be resolved in favor of validity."

See also:

Patterson-Ballagh Corp. et al. v. Moss et al. (9th Cir., 1953), 201 F. 2d 403, 406; *Bianchi et al. v. Barili* (9th Cir., 1948), 168 F. 2d 793, 795.

It is also fairly well established that the citation of an inordinate number of prior patents is an admission of weakness. This proposition was stated by the Fourth Circuit Court of Appeals in *Reynolds et al. v. Whiten Mach. Works* (4th Cir., 1948) 167 F. 2d 78, 83. Judge Parker, speaking for the Court, criticized the citation of 21 patents as follows,

"Such a citation of so many prior patents almost always means either that none of them is in point and that the patentee has brought together for the purpose of his invention devices to be found in prior patents of different character, or that there have been prior attempts to solve the problem with which he was confronted which have not met with success. (Citing cases.)"

(4) The presumption of validity is further strengthened because both expert witnesses testified that the claimed combination was novel.

On the issue of prior art, appellee relied only upon an engineer named John Ryde who had no previous experience in the field of loading devices (Tr. 265). Indeed, Mr. Ryde, with candor, admitted that he was not skilled in the art to which the patent pertains (Tr. 265).

Yet 35 U. S. C. §103 (upon which appellee relies) reads,

“A patent may not be obtained * * * if the differences between the subject matter sought to be patented and the prior art would have been obvious at the time the invention was made to *a person having ordinary skill in the art to which said subject matter pertains.*”
(Italics ours.)

Appellee, through Mr. Ryde's admission, offered no testimony which is competent to defeat the patent. We shall not, however, refrain from analyzing Ryde's testimony, as in many respects it is revealing.

Out of the twenty-seven cited patents, Ryde selected two which in his opinion were the most pertinent, namely, the patents to Moore, No. 221,848, and Bradford, No. 619,128, issued respectively in 1879 and 1899 (Tr. 270).

The patent to Moore discloses a derrick having a solid rotating platform. It was not intended as a scraploading device and could not be used as such (Ryde Tr. 274). Apparently, it was relied upon to show that circular rotating platforms were known in the prior art.

A rotating platform, however, is a far cry from the patented scraploader. The attempted analogue was with the ring-shaped turntable. The ring-shaped turntable operates in a unique manner with the remaining part of the scraploader; it serves to support the chute, while protecting the

track, and is shaped to permit the scrap to fall there-through. The pertinency of a reference is determined by its teaching relative to the problems solved by the invention under consideration [*Pointer v. Six Wheel Corporation* (9th Cir., 1949), 177 F. 2d 153, 160, certiorari denied 339 U. S. 911]. According to Dr. Sjogren, the Moore disclosure is completely unlike the patented invention and Moore offers no solution to the problem of loading scrap efficiently and economically, which perplexed both National and Metropolitan for so long (Tr. 323-325).

The Bradford patent was also cited to illustrate a rotating platform, albeit square in shape. Although the Bradford patent is directed to a loading device, it is admittedly for a different purpose and is structurally and functionally unlike the patented scraploader (Ryde Tr. 279). Dr. Sjogren testified that the Bradford disclosure could not possibly be used for scraploading and corroborated Ryde's testimony that the patented scraploader is unlike Bradford's loading device (Tr. 323-325). In view of Ryde's admissions, we shall not belabor the Court by quoting extensively from Dr. Sjogren's analysis of the Moore and Bradford patents and the reasons for their complete lack of relevancy.

It is noteworthy, however, that both patents proffered by Ryde had been available to the trade for more than 60 years. Presumptively, Metropolitan had knowledge of those patents when it decided that the known scraploading techniques were inadequate to justify a return to the business after the war. (A "person" is presumed to be familiar with all the prior art material. *Federico*, Commentary on the new Patent Act, 35 U. S. C. A. §1 to §110 at p. 21 [1954]; see also *Young v. Watson* (D. C. D. C., 1958), 168 F. Supp. 856, 861). The transition, therefore, from such prior mechanisms to Kierulff's invention was apparently not obvious to Buchholz, a person eminently skilled in the art (Dep. 55), as he remained out of the business

until he saw Kierulff's invention. Patents such as those to Bradford and Moore prompted Judge Parker, in the *Reynolds et al. v. Whiten Mach. Works** case, to say,

“Patents for useful inventions ought not be invalidated and held for naught because of such excursions into the boneyard of failures and abandoned experiments.”

We can think of no comment which is more appropriate to the instant situation.

These patents apparently were selected by Ryde because they were not cited by the Examiner. The Examiner, however, cited more pertinent art, as well as patents which disclosed structures similar to Moore and Bradford. For example, the patents to Huston, No. 2,513,726, and Kauffman, No. 2,139,960, cited by the Patent Office, disclose a rotating superstructure on a stationary base which are at least as pertinent as the Moore and Bradford patents (Sjogren Tr. 328).

It is now well established that the presumption of validity is strengthened where the Patent Office made a thorough investigation and cited the most pertinent prior art. *National Sponge Cushion Co. v. Rubber Corporation of California* (9th Cir., 1961) 286 F. 2d 731; *Patterson-Ballagh Corp. et al. v. Moss et al.* (9th Cir., 1953), 201 F. 2d 403, 406; *Georgia-Pacific Corporation v. United States Plywood Corporation* (2nd Cir., 1958), 258 F. 2d 124, 133 cert. den. 358 U. S. 884.

As we previously stated, defendant's witness Ryde testified that the claimed combination was novel (Tr. 280). Dr. Sjogren corroborated Ryde's testimony and added that the ring-shaped turntable was a new element in the novel combination (Tr. 311, 312, 321).

This Circuit has established certain rules in determining

* *Supra*, at page 58.

the pertinency of prior art. Perhaps the most complete expression of the rules appears in *The Coleman Company, Inc. v. Holly Manufacturing Company* (9th Cir., 1956), 233 F. 2d 71. Judge Bone, speaking for the Court, said at page 79,

“As far back as 1878 the Supreme Court, in a leading case, pointed out that the separate presence of the elements of a combination in three or four other patents in the prior art does not preclude a finding of invention when these elements are later so combined as to produce *a new or better result*. Judge Yankwich applied this principle in *Kammerer Corp. v. McCullough*, D. C., 39 F. Supp. 213, at page 216. His judgment in that case was affirmed by this Court in *McCullough v. Kammerer Corp.*, 9 Cir., 138 F. 2d 482, certiorari dismissed 323 U. S. 327, 65 S. Ct. 297, 89 L. Ed. 273. In adhering to the principle above noted, the trial judge adopted language found in *Bates v. Coe*, 98 U. S. 31, 48, 25 L. Ed. 68, where the Court says:

“ ‘Where the thing patented is an entirety, consisting of a single device or combination of old elements, incapable of division or separate use, the respondent cannot escape the charge of infringement by alleging or proving that a part of the entire thing is found in one prior patent or printed publication or machine, and another part in another prior exhibit, and still another part in a third one, and from the three or any greater number of such exhibits draw the conclusion that the patentee is not the original and first inventor of the patent improvement.’ ”

The rule of the *Coleman* case was reiterated in *Pursche v. Atlas Scraper & Engineering Co.* (9th Cir., 1962), 300 F. 2d 467, wherein this Court through Judge Koelsch, quoting from the *Coleman* case, said at page 474,

“When the indicia of invention we mention are taken into account together with the true state of the prior art and what the patent in suit accomplished to

improve the art it must be concluded that it represents (patentable) invention.”

Another case in point is *Flakice Corporation v. Liquid Freeze Corporation* (N. D. Calif., 1955), 130 F. Supp. 471, 486. In that case, Judge Murphy held that a wedge-shaped element, although old *per se*, was novel in the ice removal art, and therefore the “*A & P* case does not apply.”

Dr. Sjogren testified that the ring-shaped turntable in a scrap loading device is a novel element (Tr. 311).

See also the *National Sponge* case, 286 F. 2d 731, and *Pointer v. Six Wheel Corp.*, 177 F. 2d 153.

F. Conclusion on Validity

We respectfully submit, that in view of the outright copying by Metropolitan and the success it enjoyed thereby, the thorough examination by the Patent Office, the self-enervating number of patents relied upon by Metropolitan, the admission that the combination is novel and the tremendous commercial success of the invention, that collectively the evidence incontrovertibly supports the validity of the patent.

G. Infringement

(1) Appellee has admittedly appropriated appellant's patented invention, and each of the claims reads directly on the accused apparatus.

The significant undisputed facts relevant to this issue are:

1. Metropolitan admittedly copied the patented scraploader (Whann Tr. 445, 467).

2. After Kierulff charged Metropolitan with infringement, it removed the coil spring from the lower chute suspension means, leaving the wire rope, chains and equalizer bar to suspend the chute (Buchholz Dep. 64-67).

3. Claims 2 and 3 admittedly read on the accused rig prior to the removal of the coil spring (R. 310, Par. G).

We direct the Court's attention to Exhibit 2 which illustrates in parallel columns the patented rig and accused rig (without spring) separated by claim 1, with lead lines from the claim to the appropriate elements of the rigs. Like colors have been used to designate corresponding parts of the patented and accused structures.

Since claims 2 and 3 are admittedly infringed by the accused scraploader with the coil spring, we shall first discuss the difference in claim 1 to show that claim 1 is also clearly infringed. We shall then demonstrate that the coil spring is not now and never was a limitation in any of the claims which appeared in the application since its filing. Finally, by reference to the testimony of both Mr. Ryde and Dr. Sjogren and to the testimony of Mr. Buchholz, we shall endeavor to demonstrate that all three claims are clearly and unequivocally infringed by the scraploader without the spring.

The literal differences between claim 1 and claim 2 are, claim 1 defines the height of the trolley structure as being "substantially the deck-to-deck spacing of a ship", whereas the height is not specified in claim 2; and, claim 1 expressly states that the turntable is ring-shaped, whereas claim 2 utilizes geometric language to define the shape as we shall explain later.

Since Metropolitan's turntable is obviously ring-shaped, it cannot quarrel with the limitation in claim 1, leaving, therefore, only the limitation of "deck-to-deck spacing" for consideration.

It should be unnecessary to explain how the "deck-to-deck" spacing reads on the accused scraploader since Metropolitan admits to having *measured* and copied the rig

which later became patented. Both rigs are the same size and shape.

However, deck-to-deck spacing defines the height between decks (see *e.g.* Exh. 2). The space between decks constitutes the “hold” of the ship into which the scrap is loaded.

The deck-to-deck spacing may vary on a typical freighter, or from one freighter to another, between 7 and 13 feet (Tr. 356). Both the accused and patented rigs are approximately 8 feet in height.

Since the height between the decks is not a numerically fixed distance, it is prudent to define the distance in terms of well-known ship nomenclature rather than specific dimensions. If, for example, the claim had expressed the height in terms of feet, *e.g.* 8 feet, it would become arguable whether the claim would be avoided by a rig 6 feet in height. In order to obviate such argument, Kierulff chose to define the range of heights by the expression, deck-to-deck spacing, which is well known to those in the art, rather than to express the height quantitatively. According to the rule of this Circuit, a claim is “sufficiently clear” if one skilled in the art is able to reproduce the invention (*Locklin v. Switzer Bros., Inc.* [9th Cir., 1961] 299 F. 2d 160, 166.

See also *In re Wolfenspergar* (CCPA, 1962), 302 F. 2d 950, 954;

Georgia-Pacific Corp. v. United States Plywood Corp., (2nd Cir., 1958), 258 F. 2d 124.

There is no evidence that deck-to-deck spacing is ambiguous or indefinite to those skilled in the art.

The reason why the trolley structure should have substantial height is to permit the chute to be lifted from the lowermost hold to the uppermost hold and yet retain vertical stability. It is apparent that if the trolley structure

were omitted so that the track rested on the square base frame, the chute in the uppermost position would be top heavy and topple over backwards (Tr. 305, 306).

The Patent Office in granting claim 1 to plaintiff tacitly held that the expression "deck-to-deck spacing" read accurately and definitely on the patented rig. Since the accused rig is admittedly a copy of the patented rig, the expression necessarily reads on the accused rig.

It is recalled that Kierulff, upon learning of Metropolitan's scraploaders, filed a petition to expedite the prosecution of his application in the Patent Office on the ground that Metropolitan was infringing his claims (Exh. A, Petition dated Nov. 10, 1956 and affidavit by Roy C. Hopgood dated November 13, 1956). Metropolitan's scraploaders were identified and were mailed with the Petition. After careful consideration of the moving papers, the Patent Office granted Kierulff's petition (Exh. A, official letter dated January 10, 1957). In granting the petition, the Patent Office impliedly found that Metropolitan's scraploaders infringed those claims then pending in the application as a condition precedent to the grant of the petition.* Application claims 2, 5 and 26 contained the deck-to-deck spacing limitation at the time the petition was granted.

Finally, we have an admission from Metropolitan's witness Ryde that claim 1, except for the snubber, which we shall discuss later, but including the deck-to-deck spacing, reads on the accused scraploader (Tr. 264).

We respectfully submit that all the evidence, i.e., the tacit finding of infringement by the Patent Office proceedings, the testimony from Metropolitan's witness and from appellant's witness, supports the conclusion of infringement of claim 1.

* For the convenience of the Court, we have reproduced in Appendix E the Official letter promulgated by the Patent Office and setting forth the requirements for making an application "Special."

Claim 2 and dependent claim 3 define a ring-shaped turntable by means of geometric designations rather than literally as recited in claim 1. For example, claim 2 specifies a circular track, a turntable guided for rotation on the track, a chute suspension bar at one side of the turntable for supporting the upper part of the chute, and means suspending the lower end of the chute from the side of the turntable generally *diametrically* opposite from the suspension bar. The term "diametrically opposite" geometrically employed means the opposite ends of a diameter. For example, Webster's new International Dictionary, 2nd Edition Unabridged, defines "diametrically" as follows:

"along the diameter; with diametrical directness; as, to measure diametrically."

Further, the statement of invention appearing in the patent at column 2, lines 14 through 33, refers to a ring-shaped turntable.

Claim 3 adds another geometric reference in further definition of a ring-shaped turntable. In claim 3, line 2, it is stated that the suspension bar extends *chordwise* at one side of the turntable. Since a chord, by definition, intersects an arc at two points, and since the arc has been defined in terms of a diameter, the shape is necessarily of ring-shaped configuration.

In column 3, lines 5 through 9 of the patent, it is explained that the upper end of the chute 27 is adjustably supported on a pivot bar 28 spanning a small chord on one side of the turntable 25 and shown in Fig. 3 to be secured at both ends in suitable supporting brackets 29. As shown, the suspension bar intersects the ring-shaped turntable at two points, thereby defining a chord.

In regard to the rig without the coil spring, it is identical in all respects with Metropolitan's original scraploaders except that the coil spring and only the coil spring, has

been removed (Buchholz Dep. 64-67). If defendant is successfully to avoid liability, it must find refuge in the removal of the coil spring.

It is now axiomatic in patent law that infringement is made out where the accused device is substantially the same in structure, function and result as the patented invention (69 C. J. S. §290).

The purpose or result of both devices is, of course, identical; that is, to deliver scrap into all reaches of a hold simply by rotating the chute-carrying turntable.

The function is the operation of the structure defined by the claim. In Exh. 2 we endeavored to show how the elements of claim 1 read on the accused scraploader.

Manifestly, no one of the claims recites a coil spring. Appellee's contention, however, is that the coil spring must be read into the clause (last clause in claims 1 and 2) calling for "snubber means suspending the lower end of the chute, etc." We shall demonstrate that there is no basis for such contention in fact or law.

The lower chute suspension means is described at column 3, lines 18 through 33 of the patent, and colored blue in Exh. 2. It comprises a differential mechanism such as a strong back, whiffletree or beam (lines 19-20), chains connecting the beam to opposite sides of the chute (line 21), a snubber which *may* be a spring or dashpot (line 28), an adjustable hoist mechanism, and a wire cable or wire rope illustrated in Figs. 1 and 2 of the patent drawing (Exh. 1) extending between the coil spring and hoist mechanism. Thus, the specification suggests that the snubber may be a spring; it does not state or imply that the spring is critical or, indeed, even necessary. We submit that a fair interpretation of the description is that the chute suspension means performs a snubbing function, and as a suggestion one might use a coil spring or any other device capable of snubbing the shock to which the rig is subjected.

Since the claim limitation, "snubber means suspending the lower end of said chute from the side of said turntable generally diametrically opposite said bar," was the cause of some concern in the Trial Court, we shall discuss it in detail to show the following:

1. That the claim limitation defines suspension means capable of performing a snubbing function;

2. That Metropolitan's lower chute suspension means without the coil spring, performs a snubbing function; and

3. That all those witnesses, including Metropolitan's, who saw both the accused rig without the spring and the rig with the spring, testified that one operated the same as the other and the coil spring made no difference whatever.

The subject limitation can perhaps best be analyzed by assuming, *arguendo*, that the word "snubber" is not present. The limitation would then read "means suspending the lower end of said chute from the side of said turntable generally diametrically opposite said bar." There can be no dispute that such limitation would then read on the hoist, wire rope, equalizer beam and chains in the accused scrap-loader, and on the same parts plus the coil spring in the patented scraploader. The limitation would necessarily read on those several parts as they collectively constitute the suspension means.

By adding the word "snubber", a characteristic of the suspension means has simply been specified; that is, the suspension means must be capable of performing a snubbing function.

Appellee, however, in the Trial Court urged that the limitation must be construed to mean the coil spring. First, since the suspension means necessarily comprises several parts, there can be no basis for such contention. Further-

more, if the snubber means were construed to mean the coil spring, the sense of the clause would be vitiated, for it defines the snubber suspension means as extending from the turntable to the lower part of the chute; manifestly the coil spring does not extend from the turntable to the chute, whereas the several components collectively constituting the suspension means do.

The word "snubbing" means to absorb, and in the context of the chute suspension system, "snubbing" means to absorb by elongation. Dr. Sjogren, a former professor of M.I.T. and truly an expert in this field (Judge Mathes Tr. 292) testified that a steel wire is an excellent spring (Tr. 301). Since the wire rope of the suspension means consists of a plurality of steel wires, which effectively constitute a spring, the coil spring is actually superfluous (Tr. 302). He also described a snubber as an element for absorbing shock, which is fully accomplished by the wire rope in both scraploaders (Tr. 352).

Dr. Sjogren was one of the two witnesses, who testified on the issue of infringement, and who saw both the patented and accused rigs in operation (Tr. 293). He stated that the suspension system of both rigs operated exactly the same way. He also observed in both suspension systems the stretching or elongation of the wire rope in absorbing the shock (Tr. 352).

Mr. Buchholz, the only other witness who saw both rigs in operation corroborated Dr. Sjogren's testimony regarding the uselessness of the coil spring (Dep. 64-66, 84*). He testified that the scraploader performed "just as well without the spring snubber" and that "the spring was un-

* Mr. Buchholz's answer on Dep. 84 removes any doubt as to the utter uselessness of the coil spring. He said:

"What I meant on this question—this answer was that it made no difference whether or not we had a spring in there or whether we did have a spring in there, the operation went on * * *. *It didn't make a damned bit of difference.*" (Emphasis ours.)

necessary.” When it is realized that defendant relies only on the removal of the spring to avoid infringement, we submit such testimony from defendant’s president is tantamount to an admission of infringement.

Mr. Ryde did not observe the patented rig; however, he did observe the accused rig and testified that the wire rope elongated (Tr. 266, 267).

We respectfully submit that all the credible evidence establishes incontrovertibly that the wire rope performs a snubbing function, indeed, according to Buchholz, just as efficaciously as the wire rope and coil spring combination. Thus, as a matter of fact, infringement is made out, whether or not the coil spring is present.

The law on the question of infringement as raised in this case is controlled by *Graver Tank & Manufacturing Company, Inc. v. Linde Air Products Company* (1950), 339 U. S. 605, 607;* *Continental Paper Bag Company v. Eastern Paper Bag Company* (1908), 210 U. S. 405; and *Stearns v. Tinker & Rasor* (9th Cir., 1957), 252 F. 2d 589, 597, cert. den. 350 U. S. 830.

In the *Graver* case, the Supreme Court said,

“In determining whether an accused device or composition infringes a valid patent, resort must be had in the first instance to the words of the claim. If accused matter falls clearly within the claim infringement is made out and that is the end of it.”

The language of all the claims clearly reads on the accused scraploaders. If the *Graver* rule is applied “infringement is made out and that is the end of it.”

In the proceeding below, Metropolitan argued that the “coil spring” suggested in the specification should be implied into the snubber means limitation in the claims. We

* For the convenience of the Court, we have quoted several pertinent pages from this decision in Appendix C.

previously explained that there was no basis for such implication either in fact or logic, we shall now demonstrate that there is no basis for such implication in law.

The leading case on this point is the *Continental Paper Bag Co.*, 210 U. S. 405, 418, 419. In that case, the Supreme Court observed that under the patent laws (now 35 U. S. C. §112) the patentee is required to describe a preferred embodiment of his invention, and held it would be inequitable to penalize the patentee by restricting his coverage to the one specific embodiment. The Court said,

“We think it is clear that the court considered that Liddell sought to comply with §4888 of the Revised Statutes. In other words, he filed a description of his invention, explained its principle and the best mode in which he ‘contemplated applying that principle,’ and did not intend to give up all other modes of application. An inventor must describe what he conceives to be the best mode, but he is not confined to that. If this were not so most patents would be of little worth. ‘The principle of the invention is a unit, and invariably the modes of its embodiment in a concrete invention may be numerous and in appearance very different from each other.’ Robinson on Patents, §485. The invention, of course, must be described and the mode of putting it to practical use, but the claims measure the invention.”

In the *Stearns* case, 252 F. 2d 589, 596, this Court extended the rule of the *Continental Paper Bag* case by holding that it is also improper to imply limitations from the drawings or from narrower claims into the asserted claims. For example, this Court, through Chief Judge Stephens, adopting the language of the Tenth Circuit Court of Appeals in *Chicago Pneumatic Tool Co. v. Hughes Tool Co.* (10th Cir., 1938), 97 F. 2d 945, said:

“Neither is it necessary that every embodiment be illustrated by the drawings unless the form of the de-

vice is the principle of the invention. Where the particular form is not an embodiment of the principle of the asserted invention, the patent is not restricted to the exact form of construction shown in the diagrammatical drawing. And a device infringes if it embodies the essential principles taught by the patent, even though there is a departure from the drawings to the extent of simple changes which would be readily conceived and made by a mechanic in the course of constructing a device on the patent.” (Cases cited.)

We think the above quotation is particularly applicable to the instant case. The invention of the Stearns patent is not solely the ‘means’ used to ‘push’ or ‘roll’ the coiled spring electrode. Rather the novelty of the Stearns invention is that the spring electrode is caused to roll along the member to be tested, while maintaining electrical contact with the high voltage test circuit.”

In the instant case, the coil spring is not mentioned in any of the other claims, it was never proffered as an element of novelty or even as a necessary element; it is merely suggested in the specification as a suitable snubber.

This Court has repeated many times its disapprobation of minor changes to avoid infringement where the invention had been appropriated. For example, in *Ry-Lock Company Ltd. v. Sears Roebuck & Co.* (9th Cir., 1955), 227 F. 2d 615, 618, certiorari denied, 350 U. S. 987, this Court held infringement notwithstanding minor departures from the patented invention.

In *The Filtex Corporation v. Amen Atiyeh* (9th Cir., 1954), 216 F. 2d 443, 446, rehearing denied, this Court held that a difference is immaterial where the device functions the same way to accomplish the same result. In the case at bar, Buchholz testified that the removal of the spring made no difference whatever in the operation of the device (Tr. 84).

In *Bianchi et al. v. Barili* (9th Cir., 1948), 168 F. 2d 793, this Court held at page 799,

“* * * the specification and the claims of a patent are not to be construed with legalistic rigidity. Here, as elsewhere in the law, ‘the letter killeth, but the spirit giveth life’.”

At page 801,

“It [infringement] is a question of substance, and not of nomenclature. It is not to be settled by striving to ascertain the difference between tweedledum and tweedledee.”

And at page 802, quoting from another case,

“One does not escape infringement by providing a single element [wire rope] which fully responds to a plurality of elements [wire rope plus spring] in the patent.”

In *Pointer v. Six Wheel Corp.* (9th Cir., 1949), 177 F. 2d 153, certiorari denied, 339 U. S. 911, this Court found infringement and quoted testimony which is almost an exact parallel of Buchholz’s testimony. At page 162,

“Indeed, the appellant’s own plant manager admitted, at the trial, that the accused structure ‘does not differ at all from the Knox structure. In operation they are alike’.”

See also *Ransburg Electro-Coating Corporation v. Proctor Electric Company* (D. C. Md., 1962), 203 F. Supp. 235, 258, wherein the Court held that where,

“The inventive ideas of plaintiff have been appropriated; supplementation or modification, even if an improvement, will not avoid infringement (citing cases).”

(2) There is no file wrapper estoppel because the claims read directly on the accused apparatus and equivalents are not relied upon.

In the trial proceeding, as in the motion for partial summary judgment, appellee urged the defense of file wrapper estoppel. Appellee argued that plaintiff, during the prosecution of the application, cancelled broader claims than appear in the patent and, therefore, the patent claims should be construed to imply the limitation of a coil spring. The conclusion, in addition to being a *non-sequitur*, is based on a premise (i.e., the cancellation of broad claims) having no legal significance. There is no doubt that plaintiff cancelled broader claims, but such act is without legal effect or prejudice *unless* plaintiff is attempting to recapture what he previously cancelled.

By way of hypothetical example, if appellant, in an effort to overcome a Patent Office rejection, had amended the claim to recite "snubber means including a *coil spring*, etc.", then there would be substance to an argument of file wrapper estoppel. In such example, the law would estop appellant from enlarging the scope of his claim by excluding the coil spring, when it was specifically added to obtain the allowance of the claim.

The instant situation, however, is wholly unlike the hypothetical example. The asserted claims are expressly not limited to a coil spring; plaintiff was never required to add such a limitation to obtain the allowance of claims; plaintiff does not rely on the doctrine of equivalents to enlarge the scope of the claim in any respect whatever; and, the claims read specifically on the accused scraploaders.

In *Edward Valves, Inc., et al. v. Cameron Iron Works, Inc.* (5th Cir., 1961), 286 F. 2d 933, 942, 943, the Court held that there can be no estoppel, notwithstanding the cancellation of broader claims, where the asserted claims read on the accused structure. [See also *Kennedy et al. v.*

Trimble Nursery Land Furniture, Inc. (2nd Cir., 1938), 99 F. 2d 786, 788.

After hearing all the evidence, the Trial Court apparently was convinced that the defense of file wrapper estoppel was not applicable, as Judge Mathes vacated his prior order granting the motion for partial summary judgment which was based on file wrapper estoppel (R. 386).

H. Damages and Attorneys' Fees

In view of the admitted falsification of real evidence, the contradictory testimony given by appellee's witnesses, the dispute in open court between appellee's counsel and one of his witnesses regarding the veracity of his testimony, and the wilful and deliberate copying of appellant's invention, this case qualifies as exceptional under 35 U. S. C. §284 and §285.

It is recalled that appellee urged public use as one of its two basic defenses. Indeed, at least two days of the trial were devoted to the defense and rebuttal of public use. Appellee produced four witnesses (Buchholz, Ponsen, Shanley and Schapiro) to testify in regard to the defense of public use.

Needless to say, appellant's attorneys spent weeks of time investigating and studying the fact situation bearing on that issue, including a week in California at the offices of appellee's attorneys for pretrial depositions. We spent additional weeks researching the law to ascertain the baselessness of appellee's defense.

At the trial, for the first time, we learned that the now infamous drawing (Exh. BL), which appellee held out as its cornerstone of the public use defense was falsified.

The false date, August 1, 1955, was obviously placed on the drawing in support of Buchholz's testimony that he had seen the drawing Exh. BL prior to Kierulff's visit on August 23, 1955. Since Shanley testified that he first

began work on the drawing Aug. 25, 1955 (Tr. 192), it was impossible for Buchholz to have seen the drawing Exh. BL prior to Kierulff's visit. Indeed Buchholz received the proposal (Exhs. AT, AU) with the proprietary notice on or about August 23, 1955, and apparently it was this proposal with the proprietary notice which motivated the false testimony and false drawing.

Actually, since we are not complaining of a violation of confidential disclosure, whether Buchholz received the proposal (Exhs. AT, AU) before or after Shanley's drawing Exh. BL is of little moment. It is significant, however, on the issue of attorneys' fees and damages that appellee based its entire defense of public use on such false evidence, as well as the testimony of Ponsen which flies in the face of the documentary and factual evidence.

In the absence of such falsified evidence, there would have been no issue of public use, the trial would not have lasted more than one day and appellant would have been spared the very substantial expense of preparing to meet this spurious defense. In equity and good conscience appellant should be reimbursed for such needless expense.

The award of treble damages and attorneys' fees is further justified when the above-described conduct is considered with the following:

1. The courtroom contradiction between Shanley and appellee's attorneys (Tr. 201).

2. The astounding testimony that Shanley and Ponsen *saw* the ring shaped turntable in August 1955 (Tr. 198, 213), when Kierulff, Schapiro and Fabian who had first-hand knowledge of the use testified that the first use was Oct. 24, 1955. The date of Oct. 24, 1955 was confirmed by the loading chart Exh. 25.

3. Shanley's testimony that he was still working on drawings on November 19, 1955 (Tr. 199) con-

sidered with Buchholz's testimony that the rig was already delivered around November 1, 1955 (Dep. 21).

4. Outright and slavish copying of appellant's invention (Tr. 445, 467).

It is indeed ironical that Metropolitan should strive so hard by such suspect means to undermine appellant's rights, when it was precisely appellant's invention that resuscitated Metropolitan's scrap loading business which had lain in financial comatose for so many years.

CONCLUSION

We respectfully submit that the Trial Court erred in holding that Kierulff granted Metropolitan an implied license. The decision was wholly without support in fact or law. Not a single authority cited either by the Trial Court or by appellee in its Findings and Conclusions supports the decision. The law, logically and correctly, supports the conclusion that appellant had no enforceable right in 1955, had no duty to complain, and should not now be penalized by Court fiat for failure to perform a legally meaningless act.

Our case on the issues of validity and infringement has been proven largely by the testimony from Metropolitan's witnesses. According to the Supreme Court in *Eibel Process Company v. Minnesota & Ontario Paper Company* (1923), 261 U. S. 45, 53, a case made out through the mouths of opposing witnesses is a strong case. At page 53, the Court said,

“The plaintiff's case as presented on the record is largely the presumption of validity and novelty attaching to the patent and such evidence as comes from defendant's witnesses. A case that can be made out in all its elements by cross-examination of opposing witnesses is a strong case.”

On the issue of public use, it is recalled that Metropolitan's witness Schapiro testified that in his opinion and the opinion of his patent lawyer, the ring-shaped turntable rig was patentably different from the jury rig; and, further, that the use of the jury rig and the first use of the patented rig were experimental (Tr. 170-VV, 170-WW, 180).

On the issue of a license from National, Schapiro entered into a licensing arrangement with appellant, whereby Schapiro obtained only the equivalent of a shop right (Exh. P). National, therefore, had no transferable right.

On the issue of prior sale, Buchholz testified that appellant submitted a proposal bearing a proprietary notice and offered to sell equipment based on such proposal (Dep. 29). The proposal was rejected and no sale was consummated.

On the issue of prior art, Buchholz testified that appellee had refrained from returning to the scraploading business because the known techniques (which included the primary references relied upon by appellee) for scraploading were not profitable (Tr. 228, 235). However, appellee returned to the business after seeing and copying appellant's invention (Tr. 235, 445, 467).

Metropolitan's witness Ryde testified that the claimed combination was novel (Tr. 280) and the most pertinent prior art was incapable of performing the purpose of scraploading (Tr. 274, 279).

On the issue of infringement, Metropolitan admits infringement of claims 2 and 3 as they read on the scraploader with the coil spring. As to the limitation of "deck-to-deck spacing" appearing in claim 1, Ryde testified that the *only* difference between claim 1 and the discussed scraploader is that claim 1 includes a snubber (Tr. 264). Thus, he admitted that defendant's scraploader responded to the "deck-to-deck" limitation.

After Metropolitan removed the spring, Buchholz testified that the rig worked just as satisfactorily without the coil spring and that the coil spring was "unnecessary" (Dep. 65, 66, 84). The accused and patented rigs are identical in terms of structure, function and result.

We respectfully submit that the Trial Court's decision on the question of implied license should be reversed; and

This case should be remanded with directions to enter judgment for the appellant on the ground that the evidence clearly and incontrovertibly supports the conclusion of validity and infringement.

New York, N. Y., August 31, 1962

Respectfully submitted,

ASHLEY STEWART ORR
Attorney for Plaintiff-Appellant,
Jorgen V. Kierulff

JOHN M. CALIMAFDE
HOPGOOD AND CALIMAFDE
Of Counsel
60 East 42nd Street
New York 17, New York

APPENDIX A

Verbatim Statement of Points on Appeal

VALIDITY

1. The District Court erred in failing to rule on the issues of validity and infringement.
2. The District Court erred in failing to hold that the invention defined by claims 1, 2 and 3 of the patent in suit No. 2,919,042 admittedly satisfied a long felt want in the industry and the statutory presumption of validity was therefore strengthened.
3. The District Court erred in failing to hold that the statutory presumption of validity was further strengthened as a result of defendant having copied the patented invention.
4. The District Court erred in failing to hold that the statutory presumption of validity was further strengthened as a result of defendant admittedly staying out of the business of metal scrap loading, for reasons of lack of profit, until defendant saw and copied the patented invention, and since using the patented invention has become one of the largest scrap loaders on the West Coast.
5. The District Court erred in failing to hold that as a result of the substantial commercial success of the patented invention, the statutory presumption of validity was further strengthened.
6. The District Court erred in failing to hold that the statutory presumption of validity of claims 1, 2 and 3

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of the patent in suit was further strengthened as a result of an extensive patentability examination rendered by the Patent Office, and by a successful termination of an interference proceeding in which the patent application was involved.

7. The District Court erred in failing to hold that the statutory presumption of validity was strengthened as a result of defendant having cited no art more pertinent or even as pertinent as that cited by the Patent Office.
8. The District Court erred in failing to hold that claims 1, 2 and 3 of the patent in suit were valid since the expert witnesses of both parties testified that the claimed combination was novel and that an essential element in the combination was also novel.
9. The District Court erred in failing to make a positive ruling that claims 1, 2 and 3 of the patent in suit were not invalid for public use, particularly since at the conclusion of the trial the District Court stated that the defense of public use had not been proven.

INFRINGEMENT

10. The District Court erred in failing to hold that the accused device infringed claims 1, 2 and 3 of the patent in suit since the accused device and the patented device are identical in all essential details, and particularly since defendant admits copying the patented device.

Appendix A

IMPLIED LICENSE

11. The District Court erred in failing to hold that no license of any kind, implied or otherwise, had been granted by plaintiff to defendant.
12. The District Court erred in failing to hold that there had been no fiduciary, trust, or business relation of any kind between the parties in 1955, that the parties were strangers to each other, and that plaintiff performed no act upon which an implied license could be predicated.
13. The District Court erred in failing to hold that the following admitted facts defeat any implied license:
 - a) That at a time prior to defendant's purchase of the accused equipment, defendant was directly notified of plaintiff's proprietary interest in the equipment;
 - b) That notwithstanding such notice, defendant had made and placed into operation 4 units of the accused equipment;
 - c) That at the time defendant placed the accused equipment into operation, plaintiff had not yet filed his application for Letters Patent;
 - d) That at the time plaintiff observed the accused equipment at defendant's premises, plaintiff had not yet filed an application for Letters Patent;
 - e) That since plaintiff had no patent (nor even a patent application) but merely an invention, at the time he observed the accused equipment, he had no enforceable property right upon which he

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could base a complaint (*Brown v. Duchesne*, 19 How. 183, 195);

- f) That since plaintiff had no legal right upon which to base a complaint, it would have been a futile gesture for him to have complained to defendant;
- g) There was no duty on plaintiff to complain to defendant prior to the issuance of his patent;
- h) That an implied license is a license by estoppel and defendant admittedly used the same number of units after plaintiff's visit to its premises as defendant had used prior to plaintiff's visit, i.e., there was no reliance on plaintiff's silence; and, defendant suffered no damage as a result of plaintiff's silence;
- i) That defendant had failed to show any change of position in justifiable reliance on a belief induced by plaintiff's conduct.

14. The District Court erred in failing to hold that since plaintiff is not seeking damages antedating the issue date of his patent, and since notice of the patent after issuance was immediately communicated to defendant, defendant could not have been damaged by plaintiff's silence as he used only that equipment which he used prior to plaintiff's visit.

APPENDIX B

Title 35, U. S. C.,

Sections 102, 103, 112, 135, 154, 284 and 285

§102. Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless—

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or

(f) he did not himself invent the subject matter sought to be patented, or

(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining

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priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

§103. Conditions for patentability; non-obvious subject matter

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

§112. Specification

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in

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support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.

§135. Interferences

Whenever an application is made for a patent which, in the opinion of the Commissioner, would interfere with any pending application, or with any unexpired patent, he shall give notice thereof to the applicants, or applicant and patentee, as the case may be. The question of priority of invention shall be determined by a board of patent interferences (consisting of three examiners of interferences) whose decision, if adverse to the claim of an applicant, shall constitute the final refusal by the Patent Office of the claims involved, and the Commissioner may issue a patent to the applicant who is adjudged the prior inventor. A final judgment adverse to a patentee from which no appeal or other review has been or can be taken or had shall constitute cancellation of the claims involved from the patent, and notice thereof shall be endorsed on copies of the patent thereafter distributed by the Patent Office.

A claim which is the same as, or for the same or substantially the same subject matter as, a claim of an issued patent may not be made in any application unless such a claim is made prior to one year from the date on which the patent was granted.

§154. Contents and term of patent

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the

Appendix B

United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. (Emphasis added.)

§284. Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances. July 19, 1952, c. 950, §1, 66 Stat. 813.

§285. Attorney fees

The court in exceptional cases may award reasonable attorney fees to the prevailing party. July 19, 1952, c. 950, §1, 66 Stat. 813.

APPENDIX C

**Pertinent Excerpts from *Graver Tank & Manufacturing Company, Inc. v. Linde Air Products Company*,
339 U. S. 605, 607, 610**

The Court spoke through Justice Jackson as follows:

“In determining whether an accused device or composition infringes a valid patent, resort must be had in the first instance to the words of the claim. If accused matter falls clearly within the claim, infringement is made out and that is the end of it.

“But courts have also recognized that to permit imitation of a patented invention which does not copy every literal detail would be to convert the protection of the patent grant into a hollow and useless thing. Such a limitation would leave room for—indeed encourage—the unscrupulous copyist to make unimportant and insubstantial changes and substitutions in the patent which, though adding nothing, would be enough to take the copied matter outside the claim, and hence outside the reach of law. One who seeks to pirate an invention, like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy. Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at the mercy of verbalism and would be subordinating substance to form. It would deprive him of the benefit of his invention and would foster concealment rather than disclosure of inventions, which is one of the primary purposes of the patent system.

“The doctrine of equivalents evolved in response to this experience. The essence of the doctrine is that

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one may not practice a fraud on a patent. Originating almost a century ago in the case of *Winans v. Denmead*, 15 How. 330, it has been consistently applied by this Court and the lower federal courts, and continues to-day ready and available for utilization when the proper circumstances for its application arise. 'To temper unsparing logic and prevent an infringer from stealing the benefit of the invention' a patentee may invoke this doctrine to proceed against the producer of a device 'if it performs substantially the same function in substantially the same way to obtain the same result.' *Sanitary Refrigerator Co. v. Winters*, 280 U. S. 30, 42, 3 USPQ 40, 44. The theory on which it is founded is that 'if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form or shape.' *Machine Co. v. Murphy*, 97 U. S. 120, 125. The doctrine operates not only in favor of the patentee of a pioneer or primary invention, but also for the patentee of a secondary invention consisting of a combination of old ingredients which produce new and useful results, *Imhaeuser v. Buerk*, 101 U. S. 647, 655, although the area of equivalence may vary under the circumstances. See *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U. S. 405, 414-415, and cases cited; *Seymour v. Osborne*, 11 Wall. 516, 556; *Gould v. Rees*, 15 Wall. 187, 192. The wholesome realism of this doctrine is not always applied in favor of a patentee but is sometimes used against him. Thus, where a device is so far changed in principle from a patented article that it performs the same or a similar function in a substantially different way, but nevertheless falls within the literal words of the claim, the doctrine of equivalents may be used to restrict the claim

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and defeat the patentee's action for infringement. *Westinghouse v. Boyden Power Brake Co.*, 170 U. S. 537, 568. In its early development, the doctrine was usually applied in cases involving devices where there was equivalence in mechanical components. Subsequently, however, the same principles were also applied to compositions, where there was equivalence between chemical ingredients. Today the doctrine is applied to mechanical or chemical equivalents in compositions or devices. See discussions and cases collected in 3 *Walker on Patents* (Deller's ed. 1937) §§489-492; *Ellis, Patent Claims* (1949) §§59-60.

“What constitutes equivalency must be determined against the context of the patent, the prior art, and the particular circumstances of the case. Equivalence, in the patent law, is not the prisoner of a formula and is not an absolute to be considered in a vacuum. It does not require complete identity for every purpose and in every respect. In determining equivalents, things equal to the same thing may not be equal to each other and, by the same token, things for most purposes different may sometimes be equivalents. Consideration must be given to the purpose for which an ingredient is used in a patent, the qualities it has when combined with the other ingredients, and the function which it is intended to perform. An important factor is whether persons reasonably skilled in the art would have known of the interchangeability of an ingredient not contained in the patent with one that was.

“A finding of equivalence is a determination of fact. Proof can be made in any form: through testimony of experts or others versed in the technology;

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by documents, including texts and treatises; and, of course, by the disclosures of the prior art. Like any other issue of fact, final determination requires a balancing of credibility, persuasiveness and weight of evidence. It is to be decided by the trial court and that court's decision, under general principles of appellate review, should not be disturbed unless clearly erroneous. Particularly is this so in a field where so much depends upon familiarity with specific scientific problems and principles not usually contained in the general storehouse of knowledge and experience."

APPENDIX D
Table of Exhibits

<i>Plaintiff's Exhibits</i>	<i>Description</i>	<i>For Identification</i>	<i>In Evidence</i>	<i>Reproduced in Record</i>
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<i>Plaintiff's Exhibits</i>	<i>Description</i>	<i>For Identification</i>	<i>In Evidence</i>	<i>Reproduce in Record</i>
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APPENDIX E

Official Form for Petitions to Make Applications Special

U. S. DEPARTMENT OF COMMERCE

PATENT OFFICE

PETITIONS TO MAKE APPLICATIONS SPECIAL

While applications are taken up for action by the Patent office in the chronological order in which they are filed, certain exceptions are made, under the conditions set forth below, when it appears that an early issue of the patent will result in manufacture; or because of infringement.

An application will not be made "special" where the petitioner has not been diligent in filing the petition or in responding to an Office action, after the development of the circumstances qualifying the case for special action, since it is not fair to other applicants who are diligently prosecuting their applications to have them further delayed in order to give precedence to an application in which response has been delayed.

I. MANUFACTURE

(This section is not relevant to the question of infringement and has been omitted.)

II. INFRINGEMENT

Except as above indicated, and subject to a requirement for a further showing as may be necessitated by the facts of a particular case, an application may be made "special"

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because of actual infringement (but not for prospective infringement) upon the filing of a petition alleging facts under oath to show (1) that there is an infringing device actually on the market and (2) when the device, product or method alleged to infringe was first discovered to exist; supplemented by an affidavit of the applicant's attorney to show (3) that he has made a rigid comparison of the alleged infringing device with the claims of the application, (4) that, in his opinion, some of the claims are unquestionably infringed, (5) that he has made or caused to be made a careful and thorough search of the prior art and (6) that he believes all of the claims in the application are allowable.

Models or specimens of the infringing product or that of the application should not be submitted unless requested.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

JOHN M. CALIMAFDE
Attorney

No. 17,638

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

JORGEN V. KIERULFF,

Appellant,

vs.

METROPOLITAN STEVEDORE COMPANY,

Appellee.

Brief on Behalf of Appellee Metropolitan
Stevedore Company.

R. WELTON WHANN,
ROBERT M. McMANIGAL,
JAMES M. NAYLOR,
WELTON B. WHANN,
315 West Ninth Street,
Los Angeles 15, California,
Attorneys for Appellee.

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FRANK H. SCHMID, CLERK

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No. 17,638

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

JORGEN V. KIERULFF,

Appellant,

vs.

METROPOLITAN STEVEDORE COMPANY,

Appellee.

Brief on Behalf of Appellee Metropolitan Stevedore Company.

Introduction.

Jorgen V. Kierulff¹ appealed from the judgment of the Trial Court [R.² 429, 430], which dismissed his complaint, sustained Appellee Metropolitan Stevedore Company's³ counterclaim for implied license, and held "that plaintiff in 1955 granted to defendant an implied license in the nature of a 'shop right' * * * to make and use the machine described in * * *" the patent in suit.

¹Jorgen V. Kierulff, plaintiff below and appellant on this appeal, will hereinafter be referred to as Kierulff.

²Tr. will be used to refer to the Trial Transcript; R. will be used to refer to the Record; K. will be used to refer to the Kierulff deposition; B. will be used to refer to the Buchholz deposition.

³Metropolitan Stevedore Company, defendant and counter-claimant below and appellee on this appeal, will hereinafter be referred to as Metropolitan.

Although other defenses were also pleaded [see Answer and Pre-Trial Order, R. 15 and 18 to 20 and R. 313 to 315], proved by evidence introduced during the trial, and argued at the conclusion of the trial, Judge Mathes in his Opinion [R. 400] elected to limit his decision to the single ground of implied license.

The findings of fact and conclusions of law [R. 423] are directed solely to the ground of implied license, except conclusion of law No. 4 [R. 429] in which the Court states that in view of its decision of implied license to defendant, the issues of validity and infringement have not been reached.

In view of this statement and a similar statement in the Judge's Opinion [R. 400], it is clear that the Trial Court *intended* to decide this case *solely* on the ground of implied license to Metropolitan.

Appellant's Concise Statement of Points on Appeal Under Rule 75(d).

Kierulff's Original Statement of Points on Appeal.

Kierulff's Statement of Points on Appeal [R. 432] includes fourteen paragraphs, but of these, only Paragraphs Nos. 11-14, inclusive, relate to the Court's findings of fact and conclusions of law.

The four points 11-14, inclusive, are all of the "The District Court erred in failing to hold" type, and *nowhere does Kierulff assert the particular findings which are asserted to be in error*. A study of these four points indicate that it is Kierulff's position that the Trial Court should have held:

- (1) That Metropolitan at a time prior to its purchase of the equipment charged to infringe was directly notified of plaintiff's proprietary interests in the equipment;

(2) That Kierulff was under no duty to inform Metropolitan of his asserted rights and complain of its manufacture and use of the equipment; and

(3) That Metropolitan did not show a change in position.

Kierulff, pursuant to Rule 17.6, Rules of the United States Court of Appeals for the Ninth Circuit, filed a document entitled, "Appellant's Notice of Adoption of Points on Appeal and Designation of Record on Appeal," in which he adopted his statement of points on appeal under Rule 75(d). Thus, Kierulff at the time he filed his record in this Court and his Concise Statement of Points on which he Intends to Rely, admitted the correctness of all of the Trial Court's findings of fact and conclusions of law, except for those above referred to.

Kierulff Revised Statement of Points.

Kierulff's new statement of points contained in his Opening Brief, page 22 are "Specifications of Error," which are quite different from those appearing in the Record, starting at page 432. Under the guise of endeavoring to frame the basis for each error more comprehensively, "without departing, however, from the spirit or scope of the statement of points on appeal" (note at the bottom of Appellant's Brief, p. 22), Kierulff has now enlarged his specifications of error far beyond those filed under Rule 75(d) [R. 432].

In Kierulff's Brief, pages 25-29, inclusive, under the heading "H. Erroneous Findings of Fact and Conclusions of Law," Kierulff now for the first time asserts to be erroneous, portions of Findings 6, 7, 8, 9, 10,

12, 13, 14, 15, 18, 21, 22 and 23, and also the conclusions of law reached by the Trial Court.

Paragraph 6 of Rule 17 of the Rules of this Court of Appeals provides that upon filing the record in the Court the party shall also file a concise statement of points on which he intends to rely and the rule specifically states:

“* * * and the Court will consider nothing but those parts of the record and the points so stated.
* * *”

There has been a number of decisions by this Circuit stating that the provisions of this Rule will be adhered to. For example, in *Western National Insurance Co. v. LeClare*, 163 F. 2d 337, in dealing with the situation where an appellant had argued points in addition to those specified in the statement of points to be relied upon, the Court said:

“* * * These points were not stated in appellant’s statement of points and hence need not be considered by us. * * *” [p. 340.]

Also see the Supreme Court case of *Jesionowski v. Boston & Maine R. R.*, 10 F. R. S. 75d.2, Case No. 1, wherein the Supreme Court upheld the Lower Court in refusing to consider a question because of respondent’s failure to comply with Rule 75(d).

Also see *Williams v. Dodds* (C. A. 9), 163 F. 2d 724 at page 725; *Bank of America National Trust & Savings Association v. Commissioner of Internal Revenue* (C. A. 9), 126 F. 2d 48 at page 52; and *Ritchie v. Drier* (C. A. D. C.), 165 F. 2d 238 at page 240.

Under paragraph (d) of Rule 75 F. R. C. P.; paragraph 6 of this Court’s Rule 17; and the decisions re-

ferred to above, Kierulff cannot argue and this Court need not consider any asserted errors other than those contained in the Statement of Points on Appeal as they appear in R. 432, since it is clear from the rules and the decisions that this "Court will consider nothing but * * * the points so stated."

Questions Involved on Appeal.

Kierulff's Brief Raises Questions Which Are Not Pertinent to the Lower Court's Finding That Metropolitan Has an Implied License Under the Patent in Suit and Which Questions This Court Should Not Decide Without the Benefit of Findings of Fact by the Trial Court.

Kierulff raises and argues several points which are not pertinent to the Lower Court's finding of an implied license; namely, the points which are directed to questions of non-infringement, invalidity, prior public use and file wrapper estoppel which were raised by Metropolitan in the Lower Court but not decided by the Trial Court. It is Metropolitan's position that in the absence of findings by the Trial Court on these various other issues this Court cannot itself decide these issues, but can only remand the case if this Court fails to agree with the Trial Court that Metropolitan has the implied license set forth in the findings of fact, conclusions of law and judgment.

The Trial Judge was able to decide this case on the sole issue of implied license. Having found that defendant Metropolitan had a license under the patent in suit, the Trial Court dismissed Kierulff's Complaint and sustained Metropolitan's Counterclaim on this basis.

The Trial Court would have reached no different result had it, in addition, held the patent invalid, non-

infringed or that there was file wrapper estoppel or prior public use. Furthermore, if the Court had decided that the patent in suit is valid and infringed, that there was no file wrapper estoppel and no prior public use, the Trial Court would still have dismissed the Complaint and sustained the Counterclaim on the ground of license.

We have found no case which deals directly with the situation where a Court found an implied license, and, therefore, did not rule on questions of validity and infringement; but we have found numerous cases where, for example, a Court finding invalidity does not rule on the question of infringement. *Dow Chemical Co. v. Halliburton Oil Well Cementing Co.*, 324 U. S. 320, 331. Also see this Court's decision in *Bergman v. Aluminum Lock Shingle Corp. of America*, 251 F. 2d 801-804.

It is believed that the rationale should be the same in all cases where a decision on one of the defenses will fully dispose of a case. There is no need nor requirement of the Lower Court to go ahead and decide other defenses where, as in this case, no additional result or different result is to be accomplished.

Here the Trial Court was able to fully dispose of the case by its decision that Metropolitan has a royalty-free license. Why should the Court go further and hold the patent invalid or valid, infringed or not infringed? If this patent is ever sued on again those questions can be thoroughly explored by the new parties.

In the final paragraph (page 80) of Kierulff's Brief, this Court is urged to make its own findings with respect to validity and infringement and to remand this case with direction to enter judgment for Kierulff on

the ground that the evidence clearly and incontrovertibly supports the conclusion of validity and infringement.

In *Coe Manufacturing Company v. Jeddeloh Brothers Sweed Mills, Inc., et al.* (C. A. 9, 1962), 306 F. 2d 455, this Court (at page 456) stated:

“* * * We cannot properly determine validity of the claims on this appeal since no findings were made below with regard to the fact questions of what the prior art was and what Parker did to improve it.”

In *Hutchens v. Faas*, 249 F. 2d 465, this Court, at page 467, stated:

“Since the District Court confined itself to the question of infringement, this Court will rule on that question only. We are not given power to find facts, as the trial courts are. And invention is a question of fact, in ordinary circumstances such as are found here.”

Also see *Helbush v. Finkle*, 170 F. 2d 41, 42 (C. A. 9).

Actual Questions Before This Court on Appeal.

There are in reality three questions before this Court:

1. Does defendant have an implied license under the patent in suit?
2. Was it mandatory for the Trial Court, having completely disposed of the case by finding defendant had a license, to decide all other issues raised during the trial and make findings of fact and conclusions of law with respect thereto?

3. In the total absence of findings of fact relating to the defenses of non-infringement, invalidity, lack of invention, file wrapper estoppel, prior public use, etc., can this Court make its own findings of fact and decide these particular issues?

Appellee has already answered questions 2 and 3 in the foregoing part of this Section, and there remains but the single question of whether or not Metropolitan has an implied license under the patent in suit.

Defendant Has an Implied License Under the Patent in Suit.

The facts which give rise to Metropolitan's implied license are briefly as follows:

1. National Metal and Steel Corp.,⁴ the owner of scraploaders Exhibits AB, BD, BE and the 16-foot rig of the patent in suit, by its President, Joseph S. Schapiro⁵ invited and gave full approval and permission to Metropolitan to inspect and make drawings of said scraploaders.

2. National gave Metropolitan permission to make and use scraploaders of the design of the National scraploading structures.

3. Metropolitan's building of scraploaders of the design of the National scraploaders, putting them in use in November of 1955, and continuing to use them up to and including the present time.

4. Kierulff's knowledge of all of the above facts.

5. Kierulff's many opportunities to assert his rights

⁴National Metal and Steel Corp. will hereinafter be referred to as National.

⁵Joseph S. Schapiro, who is President of National Metal and Steel Corp., will hereinafter be referred to as Schapiro.

and his absolute failure to do so until after his patent issued in 1960, more than four and one-half years after his knowledge of the facts.

6. Kierulff is estopped by his conduct.

7. Metropolitan's change of position when, believing it had the right to make and use scraploaders of the design of the National scraploaders, it returned to the scraploading business.

We will discuss these facts and in presenting our arguments we will show what the Trial Court found. We will show what Kierulff's objections are and we will direct the Court's attention to the evidence which establishes Kierulff's errors. In this way we will be able to simultaneously present these factors of the case as well as show the extent to which Kierulff has admitted the correctness of the Findings of Fact.

ARGUMENT.

Relevant Facts and Kierulff's Admissions.

Thagard W. Buchholz,⁶ and other employees and agents of Metropolitan, saw three scraploaders at National in July and August, 1955, the two jury rigs and the 16-foot rig shown in the patent in suit. From June, 1955, National had in commercial use on its premises the two jury rigs shown in Exhibit AM, the essential or special parts of which were purchased from Modern Crane & Conveyor Co.⁷ and delivered to National on June 20, 1955. The evidence shows that the jury rigs shown in the sketch drawn by

⁶Thagard W. Buchholz, President of Metropolitan, will hereinafter be referred to as Buchholz.

⁷Modern Crane & Conveyor Co. will hereinafter be referred to as Modern.

Kierulff, Exhibit AM, were first used for loading a ship on June 21, 1955 [Tr. 170-G; K. 219, 259; Admission 2, R. 324]. The jury rigs include all of the elements of claim 2 of the patent in suit. Opposite page 44 of this Brief is Kierulff's sketch, Exhibit AM, with the elements of claim 2 applied to it.

The jury rigs were successfully operated scraploaders. Schapiro testified that they were *commercially* used to load 20 to 30 ships, and were used until they were worn out [Tr. 170-G, 170-I; and also K. 270, R. 329-330], and long after the first 16-foot rigs were built [K. 482, R. 333-334].

The jury rigs effected a savings of approximately \$10,000.00 for each ship loaded [K. 237, 272; R. 329, Ex. AR]; decreased the loading time from a range of from 21 to 18 days to a range of 14 to 12 days [K. 234, 272; R. 328; Ex. AR]; decreased the loading time to 40 per cent of what it had heretofore been [K. 235, 272; R. 328, 329, Ex. AR]; and saved roughly \$136.00 per hour [K. 236, 272; R. 329, Ex. AR].

In Finding 6 [R. 423] the Trial Court found the following facts:

“6. In May of 1955, National Metal and Steel Corporation, hereinafter referred to as National, employed Modern Crane and Conveyor Company hereinafter referred to as Modern, to design and construct two shiploading structures. Accordingly, Modern, on or about June 19, 1955, sold and delivered to National two shiploading structures known as the ‘jury rigs’ and shown in Exhibit AM.”

Kierulff urges that Finding 6 is erroneous (Kierulff Brief p. 25) on the basis that Modern did not sell and deliver *all* of the parts to National.

From the standpoint of the issue of license, it is immaterial whether Modern supplied all of the parts and it is also immaterial whether or not the use of the jury rigs was a public use.

The prime point is that the jury rigs were on National property, Schapiro represented that National owned the inventions, and gave Metropolitan permission to copy and build.

Kierulff does not deny that the jury rigs Exhibit AM were in use at National starting June 21, 1955.

At least one of the jury rigs was modified in July or August to include a snubber spring and jib boom as shown in Exhibits BD and BE. Kierulff contends that the jury rig as shown in Exhibits BD, BE and the 16-foot rig was not in existence in July or August, 1955.

In Finding 7 [R. 424] the Trial Court found the following facts:

“7. In July or August of 1955, the ‘jury rigs’ shown in Exhibit AM were modified by the addition of a ‘snubber spring’ and ‘jib boom’. The modified ‘jury rigs’ are shown in Exhibits BD and BE.”

Kierulff asserts Finding 7 to be erroneous (Kierulff Brief p. 25) in stating that the modification was made in July or August of 1955, and asserts that it was made after October 15, 1955, and relies on Tr. 93, Kierulff’s depositions p. 512.

Kierulff, however, testified that the snubber was added to the jury rigs “shortly after they were put

in use" [K. 454.] Furthermore, in Admissions under Rule 36, Kierulff admitted:

"28. On or about July 31, 1955, a snubber spring was added to at least one jury rig.

"Answer: On or about July 31, 1955, a snubber coil spring was added to at least one jury rig." [Tr. 330.]

Furthermore, Schapiro testified that "It was in the month of July or August of 1955 that we added the snubber spring to the apparatus." [Tr. 170-K].

In the early part of July, 1955, National hired Kierulff for the express purpose of designing the 16-foot rig [Tr. 128, 131, 132, 135, 138, 155, 156, 171-174, 181, 182; R. 345, 347]. On July 26, 1955, the essential parts of the 16-foot rig, including the rig-shaped table, were delivered by Modern to National [Schapiro Tr. 170-M and Ex. H, fifth and sixth sheets].

In Finding 8 [R. 424] the Trial Court found the following facts:

"8. In July of 1955 National employed Modern to construct an improved design of a ship-loading structure. Accordingly, in July of 1955, the first 16 foot structure, which is shown in the patent in suit No. 2,919,042, was sold and delivered by Modern to National."

Kierulff asserts Finding 8 is erroneous (Kierulff Brief p. 25) on the basis that Modern did not manufacture *all* of the parts, and on the basis that the 16-foot rig was not completely assembled until after October 15, 1955. As to the first objection, it is immaterial whether Modern supplied all of the parts. The principal point is that the 16-foot rig was on the premises at National and (even if it were admitted that it

was not completely assembled) was inspected by Buchholz, Ponsen, employees of Wilmington, and the draftsman, Shanley, all with the permission of National. Certainly enough was there so that Shanley was able to make rather complete drawings.

In Finding 9 [R. 424] the Trial Court found the following facts:

“9. In July or August of 1955, National invited T. W. Buchholz, Vice-President of defendant, to the National premises to see and observe the National shiploading structures, including the ‘jury rigs’ shown in Exhibit AM, the modified ‘jury rigs’ shown in Exhibits BD and BE, and the sixteen foot structure shown in the patent in suit No. 2,919,042.”

Kierulff (Kierulff Brief p. 26) objects to this Finding on two grounds: first, that Buchholz testified he never saw the 16-foot structure in operation; and, second, that the 16-foot structure was not even in existence. Finding 9 does not state that Buchholz saw the equipment in operation, it merely says that he was invited to the premises to see and observe the structures. As to the date of existence of the 16-foot structure, see the argument on page 13.

In Finding 10 [R. 424] the Trial Court found the following facts:

“10. In July or August of 1955, T. W. Buchholz and Ray Ponsen, another employee of defendant, entered the National premises to see and observe the National shiploading structures shown in Exhibits AM, BD and BE. At the time of said visit plaintiff was present, knew the nature and purpose of the visit, had the opportunity to in-

form Messrs. Buchholz and/or Ponsen that he objected to their seeing and observing the said shiploading structures, but failed to so do.”

Kierulff (Kierulff Brief p. 26) asserts that this Finding is erroneous *because* he had no right or duty to object. However, Finding 10 only asserts that at the time of the visit Kierulff was present, knew the nature and purpose of the visit and had the opportunity to object, but failed to so do.

Kierulff further asserts error on the ground that Exhibits BD and BE were not then in existence. We have pointed out heretofore Kierulff’s testimony and his admission under Rule 36 that the structure of Exhibits BD and BE was in existence at least as early as July 31, 1955.

Kierulff makes no objection to Finding 11 which finds that Messrs. Buchholz and Ponsen, during the course of the visit referred to in Finding 10, were invited back to see and observe Exhibits AM, BD and BE in operation.

In Finding 12 [R. 424-425] the Trial Court found the following facts:

“12. A few days after the invitation referred to in Finding 11, Messrs. Buchholz and Ponsen entered the National premises to see and observe the National shiploading structures shown in Exhibits AM, BD and BE in operation. At this time plaintiff was present, knew the nature and purpose of the visit, had the opportunity to inform Messrs. Buchholz and/or Ponsen that he objected to their seeing and observing the National shiploading structures shown in Exhibits AM, BD and BE in operation, but failed to so do.”

Kierulff (Kierulff Brief p. 27) raises the same objection to Finding 12 as he does to Finding 10. It is to be noted in connection with both Finding 10 and Finding 12, Kierulff does *not* deny the portions of these Findings which state “at the time of said visit plaintiff was present, knew the nature and purpose of the visit, had the opportunity to inform Messrs. Buchholz and/or Ponsen that he objected to their seeing and observing the said shiploading structures, but failed to so do.”

Kierulff was personally present when the superintendent of the National yard passed employees of Wilmington Welding & Boiler Works⁸ through the gates for the purpose of inspecting and copying the National scraploader [K. 393, 397 and 418].

Kierulff testified as follows:

“Q. Right. You were present when the superintendent passed them through the gates? A. I asked, ‘Who are they?’ He said, ‘From Wilmington & Boiler Works. They been invited over to look this stuff over.’ This is how I had information from Mr. Sieverson. But I bring that point up, too, because I think it is very important.” [K. 399, lines 18-24].

Kierulff was keeping *close track* of what was going on. He testified:

“‘Mr. Williams: Q. Who entered from Wilmington on the premises of National? A. Oh, there, I wasn’t introduced to them; I don’t know personally. *I saw people come in and I kept an eye on it and saw what was going on, but I don’t know who they were, in person.*’

⁸Wilmington Welding & Boiler Works will hereinafter be referred to as Wilmington.

“Is it true that you were asked that question and gave that answer? A. Correct, sir.” [K. 395, lines 4-12.]

In Finding 13 [R. 425] the Trial Court found the following facts:

“13. A few days after the visit referred to in Finding 12, National gave T. W. Buchholz permission to send his fabricators to the National premises to sketch the National shiploading structures shown in Exhibits AM, BD and BE, and shown in the patent in suit No. 2,919,042. At this time National gave T. W. Buchholz permission to build and use shiploading structures of the designs of the National shiploading structures shown in Exhibits AM, BD, and BE, and shown in the patent in suit No. 2,919,042. Plaintiff was fully aware of the fact that National had given defendant permission to make and use shiploading structures of the design of the National shiploading structures shown in Exhibits AM, BD and BE, and shown in the patent in suit No. 2,919,042, and had the opportunity to inform the defendant, its officers, agents, or employees of his objections thereto and assert his rights in and to said shiploading structures, but failed to so do.”

Kierulff's objections to this Finding (Kierulff's Brief, p. 27) are:

1. That the rigs shown in Exhibits BD and BE and the patented rig were not in existence during the stated times.
2. That Kierulff's lack of complaining is founded on a faulty premise.

3. That Kierulff had no right or duty to complain because he had no patent or patent application during the stated times.

Kierulff makes no objection to the finding of fact that Buchholz was given permission to build and use scraploaders or that Kierulff was fully aware of the fact that National had given Metropolitan permission to make and use scraploaders of the design of the National scraploaders.

In Finding 14 [R. 425-426] the Trial Court found the following facts:

“14. A few days after the events referred to in Finding 13, Robert H. Shanley, an engineer employed by Wilmington Welding & Boiler Works, acting as agent and on behalf of defendant, together with Ray Ponsen, were admitted on to the National premises and were permitted to make drawings of the National shiploading structures shown in Exhibits AM, BD and BE, and shown in the patent in suit No. 2,919,042. Plaintiff was fully aware of the presence of Messrs. Shanley and Ponsen, of the nature and purpose of their visit, and was in a position to inform them that he objected to their making drawings of said shiploading structures, but failed to so do.”

Kierulff (Kierulff Brief p. 27) asserts this Finding to be in error on the ground that the structures were not in existence during July and August of 1955.

The evidence supporting Findings 12 and 14 convincingly shows that the scraploader apparatus was in existence.

In view of Kierulff's repeated erroneous assertion that the jury rigs and the 16-foot rig were not avail-

able for inspection in July or August of 1955, we are directing the Court's attention to evidence which convincingly establishes that this equipment was in existence and was at National's yard.

The 16-foot rig, the patent in suit, was inspected by a number of witnesses who not only saw the equipment but also measured it and made drawings.

Robert H. Shanley is an engineer who was hired by Wilmington for the purpose of inspecting the apparatus, sketching it and making drawings. Shanley's testimony is particularly valuable because he testified from his business diary, notes and drawings, which reliably establish dates and refreshes his recollection.

On direct examination Shanley testified that on Thursday, August 25, his notes show that he made the drawings Exhibits BL and BK from free-hand sketches given to him by Mr. Stone [Tr. 193]. Shanley also testified he did nothing further until August 31, 1955, on which date he went over to National "and measured up one of the shiploading devices that was then mounted on a ship" [Tr. 195]. Shanley testified that the loader which he saw on August 31, 1955 had a round table [Tr. 198]. In fact he testified "It had a round table. I never saw another type of table other than the round table." [Tr. 198]. The round table has reference to the scraploader shown in the patent in suit which is thuswise distinguished from the jury rigs which had a trapezoidal table.

Mr. Calimafde, Kierulff's attorneys tried hard on cross-examination to break down Shanley's testimony but utterly failed, as is illustrated by the following cross-examination of Shanley:

"Q. On August 31, 1955, when you visited the National shipyards did you see one or more

than one scraploader? A. I saw one unit in detail, and I saw another one the length of a ship away. I didn't visit it.

Q. You saw two, but one closely, one in detail?

A. That's right.

Q. Is it your recollection—I understood from your testimony on direct examination that the one you saw in detail had a circular turntable. A. That's correct." [Tr. 203].

"Q. Did you see the turntable rotate? A. No." [Tr. 204].

Mr. Calimafde then attempted to prove that Shanley only saw the circular turntable, and his question and the answer is as follows:

"Q. Is it possible, Mr. Shanley, that you saw only the circular turntable? A. No. I measured the unit up in detail, and the details that are reflected in that drawing reflect accurately what I saw. I didn't design anything. All I did was copy it." [Tr. 204].

Shanley's testimony should be given great weight because it was from the equipment he saw and the sketches he made that he prepared the drawings from which the scraploaders were actually constructed [Tr. 195-199]. Shanley's drawings all show the complete assembly of scraploader which has all of the essential elements of the patent in suit.

The witness Stone, superintendent at Wilmington, testified that he visited National about the middle of August, 1955, accompanied by Ponsen, and that they measured the equipment [Tr. 221]. Stone recalled that the table of the scraploader was round "just like the three we made in the shop."

The drawings made by Stone were turned over to Shanley and it was from these drawings that Shanley made the original drawings Exhibits BL and BK on August 25, 1955 [Tr. 193]. This portion of Stone's testimony is as follows:

"Q. Did you thereafter make sketches from the information which you obtained? A. I made rough penciled sketches at that time, and then I turned them over to Mr. Shanley. Then he made up prints so we could build the units.

Q. Now, would you look at Exhibit BK, and would you state whether or not Exhibit BK discloses the shiploading device which you saw at Wilmington, or at National Metals? A. This is very similar, yes. It's just about what we measured up over there, except for a few details." [Tr. 221 and 222].

Indeed, Kierulff himself testified that:

"Q. Well, isn't it true that in the latter part of 1955 you knew that Wilmington Welding & Boiler Works men came onto the premises of National Metal for the purpose of inspecting the loading machines? A. The loading machines, yes.

Q. By Mr. Whann: What loading machines? A. The loading machines we had at that time, all of them.

Q. What machines were they? A. The jury rigs and the first 16-footer that was built." [K. 397].

The employees of Wilmington, namely, Stone and Brunskill, came on to the property in August of 1955 and this, therefore, fixes the date of the incidences referred to in the above-quoted portions of Kierulff's testimony.

Ponsen, an employee of National, testified that he made two visits to National prior to August 29, 1955. As to the first visit he said:

“A. At that time I was with Mr. Buchholz, and we visited the ship.

Q. What did you see? A. We saw on board the ship—there were, I believe, two devices being used to trim the scrap into the hold of the vessel.

Q. Were the two devices being used to load scrap? A. Yes, sir. Yes, indeed, they were.

Q. Will you state what you observed, how they were using them? A. Well, these devices were sitting on the square and the scrap was dumped into the circle onto a chute, and then onto—the gravity took it down the hatch and stowed it.” [Tr. 211].

As to the second visit, Ponsen says that was a week or ten days later and he was in the company of Messrs. Brunskill and Stone of Wilmington [Tr. 212]. With respect to what was done on the second visit, Ponsen testified:

“Q. Did you observe any scraploaders on that visit? A. Yes. We went over there to measure one up.

Q. What did you see? A. Well, we saw a 16-foot circle there. We measured the whole thing. And one of those devices was sitting on the ground there, and we measured the whole thing up and took the information with us.” [Tr. 212].

In Finding 15 [R. 426] the Trial Court found the following facts:

“15. In August of 1955, plaintiff visited T. W. Buchholz for the purpose of selling defendant ship-loading structures of the design shown in the

patent in suit No. 2,919,042. At the time of this visit plaintiff knew of defendant's intent to build three shiploading structures of the design of the shiploading structures shown in Exhibits AM, BD and BE and in the patent in suit No. 2,919,042, but failed to voice any objection thereto."

Kierulff's only objection to this Finding is the statement that plaintiff knew of defendant's intent to build three shiploading structures.

Since Kierulff knew (as shown by the evidence) that National had given Metropolitan permission to inspect, copy, make and use scraploaders of the design of the National scraploaders, since Kierulff knew that employees of Wilmington, as agents of Metropolitan, entered the National premises to make construction drawings of the National scraploaders, and since Kierulff visited Buchholz for the sole purpose and intent of selling Metropolitan three scraploaders of the design of the National scraploaders, Kierulff unquestionably knew that it was Metropolitan's intention to build scraploaders of the design of the scraploaders which Metropolitan saw at National.

Kierulff makes no objection to Findings 16 and 17, which find as follows [R. 426]:

"16. In August or September of 1955, defendant placed an order with Wilmington Welding & Boiler Works for the construction of three shiploading structures. In October of 1955, Wilmington Welding & Boiler Works sold and delivered to defendant three shiploading structures shown in plaintiff's Exhibit 4. Plaintiff knew that three shiploading structures shown in plaintiff's Exhibit 4 had been sold and delivered to defendant, and

that defendant intended to use said shiploading structures in the ordinary course of its business, but failed to state any objection thereto.

“17. In December of 1955, or January of 1956, plaintiff and Joseph Schapiro, president of National, visited the defendant’s premises and observed the defendant’s shiploading structures shown in plaintiff’s Exhibit 4. At this time, plaintiff expressed no objection to defendant making, using or continuing to use said shiploading structures.”

Kierulff’s knowledge of National’s policy of allowing others to have free use of the national scraploaders is demonstrated by Kierulff’s many discussions with Schapiro. Kierulff testified as follows:

“Q. Did Mr. Shapiro tell you that he wanted to let other people use these free of charge? A. Yes, he informed me to that effect.

Q. You knew that he had not only offered free use of these rights to Metropolitan but also to Commercial? A. I am aware of that.” [K. 405, lines 17-22].

“Q. When was the first time that he informed you that he wanted others to have free use of the invention? A. He informed me when I had acquired knowledge of Metropolitan Stevedore Company securing documents and information, and I had brought this to his attention. And he said, ‘What is going on?’ And I referred to it again. I said, ‘Mr. Hirschberg seems to be behind this move.’ He informed me that ‘Helmuth did it, it is all right, don’t worry about it, pay no attention to it.’” [K. 412, lines 21-26; 413, lines 1-3].

The date of this conversation is fixed for the reason that it was in July and August of 1955 that National, through its officers and agents gave Metropolitan permission to inspect, make drawings and copy.

Kierulff also testified as follows:

“A. The dispute was—arisen this way, that Mr. Shapiro had gotten wind of my dealing with Commercial Metals by way of a carbon copy of a letter forwarded to him and was aware that I was exercising what he considered his rights, in his behalf, rather than as I feel I was exercising my own. And due to my persistence in insisting in obtaining patent rights and his refusing, Mr. Shapiro came flat out and made the statement to me at one time, ‘Now, George, if you are going to patent this thing here I am going to fight you in the Patent Office with every means I have. We have made certain commitments and we do not wish to become co-defendants in any future litigation under any form. You may rest assured I am going to try and block you.’” [K. 420, line 26-421, line 12].

Kierulff makes no objections to Findings 19 and 20 [R. 427], which read as follows:

“19. During the period July 1955 to January 1960 plaintiff had numerous opportunities to express his objections to defendant’s construction, use and continued use of its shiploading structures shown in plaintiff’s Exhibit 4 and assert his rights in and to said structures, but failed to so do.

“20. It was not until January 1960—four and one-half years after plaintiff first had knowledge of defendant’s construction, use and intent to con-

tinue to use its shiploading structures shown in plaintiff's Exhibit 4—that plaintiff, for the first time, objected to defendant's use of said shiploading structures.”

Kierulff, however, does contend Finding 18 [R. 426-427] which states:

“18. At no time during the period July 1955 to January 1960 did plaintiff voice any objection to defendant's construction, use or continued use of its shiploading structures shown in plaintiff's Exhibit 4, and/or assert any rights in and to said structures.”

is erroneous in stating “at no time during the period July, 1955 to January, 1960 did plaintiff * * * assert any rights in and to said structures”. Kierulff argues that in August, 1955, Buchholz knew of Kierulff's proprietary rights in the design. This contention is absolutely groundless.

Kierulff, in his opening Brief, argues that Metropolitan was informed of Kierulff's proprietary interest by the notice on the drawing, Exhibit AU (Kierulff's Brief p. 28). This drawing was not disclosed to Buchholz during the course of Kierulff's visit to Metropolitan on behalf of Modern for the purpose of selling scraploaders of the design of the National scraploaders to Metropolitan, but accompanied the offer to build sent by Modern to Metropolitan on August 23, 1955. This is Exhibit AT and the last paragraph of the letter states: “Enclosed is a set of general specifications and schematic drawing of the shiploader.”

The notice on Exhibit AU which appears in the upper left-hand corner, reads: “The use of this drawing shall be restricted to the conveyance of informa-

tion to the customers or vendors only. This drawing may not be reproduced without written consent of Modern Crane and Conveyor Co.”

This is not a notice of any proprietary right or interest of Kierulff in any equipment. It appears to indicate that the drawing is the property of Modern Crane & Conveyor Co. It is *not* stated that the information is proprietary or confidential. The only limitation imposed is a limitation imposed by *Modern Crane & Conveyor Co.* that “The use of this drawing shall be restricted to the conveyance of information to the customers or vendors only.”

Certainly no one from reading this notice would conclude that Kierulff claimed himself to be the owner of any invention embodied in the structure disclosed in this drawing.

Kierulff’s present position of notice of proprietary interest and his present inference that this should have warned Buchholz or Metropolitan that it could not build the scraploaders which it had seen at National, is plainly contrary to Kierulff’s Admission [Admission 128, R. 349], which reads:

“128. The first objection which Plaintiff made to Metropolitan Stevedore Company with respect to their building or using the two loaders which plaintiff now charges are an infringement of the Kierulff patent was after said patent had issued.

“*Answer:* Admitted.”

The evidence is plain that the Trial Court’s findings of fact are supported by substantial evidence and Kierulff has not made any showing adequate to meet the “clearly erroneous rule” stated in F.R.C.P. 52(a), as follows:

“* * * Findings of Fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses. * * *”

Also see *Ruud v. American Packing & Provision Co.*, 177 F. 2d 838 (C. A. 9, 1949), *Nuelsen v. Sorensen*, 293 F. 2d 454 (C. A. 9, 1961), and *Joseph v. Donover Co., Inc.*, 261 F. 2d 812 (C. A. 9, 1958).

The Trial Court's Finding 21 [R. 427-428] is important since it finds the essential facts imposing the duty on Kierulff. In Finding 21 [R. 427-428] the Trial Court found the following facts:

“21. Plaintiff was under a duty to assert his rights and state his objections to defendant, its officers, agents, or employees when he first learned: that National had given defendant permission to see and observe its shiploading structures shown in Exhibits AM, BD, BE and in the patent in suit No. 2,919,042; that National had given defendant permission to copy, make and use shiploading structures of the design of the shiploading structures shown in Exhibits AM, BD, BE and in the patent in suit No. 2,919,042; that defendant intended to build three shiploading structures of the design of the shiploading structures shown in Exhibits AM, BD, BE and in the patent in suit No. 2,919,042; that three shiploading structures shown in plaintiff's Exhibit 4 had been constructed, sold and delivered to defendant; and that defendant intended to use and continue to use the three shiploading structures shown in plaintiff's Exhibit 4 in the ordinary course of its business.”

Kierulff's *only* objection to this Finding (Kierulff's Brief, p. 28) is that “Kierulff was under no duty to

complain *because* during the period prior to the issuance of his patent he possessed no enforceable right." Thus, it appears Kierulff is willing to admit that if he, Kierulff, had an enforceable right then he would have had the duty to complain.

The Lower Court, after weighing all the evidence, found that there was a duty, and it is respectfully submitted that this holding by the Court is clearly substantiated by the facts and law.

There can be no doubt that the owner of an invention or one *claiming* ownership of an invention does have a right before a patent application has been filed.

Before reviewing the facts and the law on this issue it is important to note that both Kierulff and Buchholz were on the witness stand. Their testimony was heard by Judge Mathes, and their demeanor observed. The learned Trial Judge thereafter evaluated all the evidence on this subject and found that Metropolitan did not know Kierulff claimed any rights in the scraploaders and that Metropolitan "believed that the permission granted to it by National gave it the complete right to make and use the shiploading structures shown in Exhibits AM, BD and BE, and in the patent in suit No. 2,919,042." [Finding 22, R. 428].

The basic rights which Kierulff had were his common-law rights to his invention and his right to file an application and obtain a patent. In dealing with the right of an inventor to his invention this Court in *Six Wheel Corporation v. Sterling Motor Truck Co.*, 50 F. 2d 568, 570 (May 18, 1931) said:

"The right of an inventor to the product of his talent is recognized by the common law. * * *

“‘It is to be observed that no constitutional or statutory provision of the United States was, or ever has been, necessary to the right of any person to make an invention, discovery, or machine, or to use it when made, or to sell it to some one else. Such right has always existed, and would exist now if all patent laws were repealed. It is a right which may be called a natural right, and which, so far as it can be regulated by law, belongs to ordinary, municipal legislation; and it is unaffected by anything in the constitution or patent laws of the United States.’”

As to Kierulff’s right to obtain a patent for any invention he made, 35 U.S.C.A. Section 101 provides:

“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, *may obtain a patent therefor*, subject to the conditions and requirements of this title. July 19, 1952, c. 950, § 1, 66 Stat. 797.” (P. 172, emphasis added.)

In *Gayler, et al. v. Wilder*, 51 U. S. 477, the United States Supreme Court said that an inventor has an *inchoate* right, which he may make absolute by obtaining a patent:

“* * * But the discoverer of a new and useful improvement is vested by law with an inchoate right to its exclusive use, which he may perfect and make absolute by proceeding in the manner which the law requires. * * *” (P. 493.)

Kierulff had this right to file a patent application in July of 1955 when he had completed the drawings of the 16-foot rig. To say that Kierulff’s delay in

filing his patent application until October 8, 1956 deprived him of any rights during this period of time is an absurdity. Not only is it absurd, but the decisions state otherwise.

Thus, we see that not only does the law give an inventor rights under his unpatented and unapplied for invention; but, in addition, Kierulff, by his own acts in 1955 and 1956, shows that *at that time* he believed he had rights to his invention.

In Exhibit AR—the letter written by Kierulff to Commercial in April, 1956, six months before he filed his patent application—Kierulff asserted to Commercial that the K-design of scraploader (the 16-foot scraploader) was his property.

In August of 1955 Kierulff must have understood that he had proprietary rights for the reason that he granted a license to Modern under which he would receive \$2,000.00 per unit [K. 334, 335].

In our present case we are not concerned merely with what rights Kierulff had before he filed a patent application, but we are concerned with the more important question of estoppel and acquiescence. The Trial Court found that Kierulff “was under a duty to assert his rights and state his objections to defendant, its officers, agents, or employees” [R. 427], when he first learned of the facts; and further held, Finding 23 [R. 428]:

“23. As a result of plaintiff’s acquiescence for a period of four-and one-half years, defendant acquired an implied license in the nature of a ‘shop right,’ namely, an irrevocable, non-exclusive, non-assignable and royalty-free right to make and use the machine described in the patent in suit No. 2,919,042.”

The Finding of estoppel or acquiescence is a finding of fact and not a conclusion of law. In *Gill v. United States*, 160 U. S. 426, where this same question of acquiescence and estoppel was considered, the Supreme Court, starting at line 6 on page 435, said: “* * * *The ultimate fact to be proved* is the estoppel, arising from the consent given by the patentee * * *” and this Supreme Court case, on the same page, stated that the consent could be given “* * * *by conduct* on the part of the patentee proving acquiescence on his part in the use of his invention. * * *”

An implied license is of equitable origin, and as stated in *Gill v. United States*, the ultimate fact to be proved is estoppel arising from conduct which shows acquiescence on the part of the inventor in the use of his invention.

It is well grounded law that, if estoppel is proved, it makes no difference that the patentee had not filed his patent application at the time the alleged infringer began making and using the patentee's invention.

In *Gill v. United States*, 160 U. S. 426, the Court found that:

“* * * one or more machines or articles of manufacture embodying the invention, had been constructed and was in operation or use in the arsenal *with the claimant's knowledge* and consent *before he filed an application for a patent*. * * *” (Emphasis added.) (P. 433.)

In *Barton v. Nevada Consol. Copper Co.* (C. A. 9, 1934), 71 F. 2d 381, the process of the patent in suit was used in the business of the Appellee with the knowledge and consent of the Appellant *prior to the application for the patent*. The Court of Appeals

for the Ninth Circuit held, on equitable principles, that Appellee was entitled to use the process of the patent in suit. The Court said:

“* * * And therefore there is no escape from the conclusion that the process was used in the business of the appellee with the knowledge and consent of appellant *prior to the application for the patent.* * * *” (Emphasis added.) (P. 382.)

For additional cases in which the Court held that defendant acquired an implied license before patentee applied for his patent, see: *Lane & Bodley Co. v. Locke*, 150 U. S. 193, at pages 197, 198 and 200; *Gate-Way v. Hillgren*, 82 F. Supp. 546, at pages 548 and 555, affirmed by the Court of Appeals for the Ninth Circuit in 181 F. 2d 1010; *Wiegand v. Dover Mfg. Co.*, 292 Fed. 255, at pages 260 and 261; and *Brill v. St. Louis Car Co.*, 80 Fed. 906, at pages 908 and 909.

Kierulff Is Estopped by His Conduct.

The facts which prove the ultimate fact of estoppel or acquiescence are found in the Trial Court's Findings [Findings 18, 19, 20 and 21; R. 426, 427], **the essential and pertinent facts** of which findings, except as to the exact time the National scraploaders were available for inspection, **are undisputed.**

Kierulff remained silent during the critical period and for four years thereafter, and permitted National to show the scraploaders to Metropolitan, to permit its copying the designs, to furnish drawings and represent that National or Schapiro owned the scraploader invention, and to grant a free license to Metropolitan to duplicate the scraploader.

The law is well settled that a man cannot stand idly by or by his silence encourage another to use the invention he claims, and after the other has detrimentally changed his position, compel this other person to relinquish further use of the invention.

Gill v. United States, 160 U. S. 426, already referred to, appears to be a leading case on this subject. The facts resemble those in our present case. Gill, having made an invention, and apparently secretly claiming all rights to the invention, permitted the Government to proceed with the building and use of his invention, “* * * giving no intimation, at the time, that he regards it as property or that he intends to protect it by letters patent, but allows the government to test the invention at its own exclusive cost and risk by constructing machinery and bringing it into practical use before he applies for a patent, * * *” (Statement of case in *Gill v. United States*, p. 428).

After the success of the invention was established, Gill then filed a patent application and thereafter sued the United States.

This is exactly what Kierulff did. In October of 1956, after it was apparent to everyone that the invention was an outstanding commercial success, Kierulff then files a patent application and three and one-half ($3\frac{1}{2}$) years later, for the first time, notifies Metropolitan of his rights.

It was not necessary for Kierulff to grant Metropolitan a license in writing in order that they have a right. As pointed out in *Gill v. United States* on page 435, the most conclusive evidence of such consent is an express agreement, but, as the Court pointed out, a license by estoppel or acquiescence, “* * * may

also be shown by parol testimony, or by conduct on the part of the patentee proving acquiescence on his part in the use of his invention. * * *

A party is bound by fair dealing to make known his rights. Gill's failure to assert his rights was the basis on which the Supreme Court in *Gill v. United States* held in favor of the Government. The Supreme Court said:

"* * * A patentee is bound to deal fairly with the government, and if he has a claim against it, to make such claim known openly and frankly, and not endeavor silently to raise up a demand in his favor by entrapping its officers to make use of his inventions. * * *" (p. 437.)

The following quotation from *Gill v. United States* sets forth the principle of law and facts, which fully support the Lower Court's holding and Metropolitan's contentions that Metropolitan cannot be disturbed in its right to make and use the structure of the patent in suit:

"The principle is really an application or outgrowth of the law of estoppel *in pais*, by which a person looking on and assenting to that which he has power to prevent, is held to be precluded ever afterwards from maintaining an action for damages. A familiar instance is that of one who stands by, while a sale is being made of property in which he has an interest, and makes no claim thereto, in which case he is held to be estopped from setting up such claim. **The same principle is applied to an inventor who makes his discovery public, looks on and permits others to use it without objection or assertion of a claim**

for a royalty. In such case he is held to abandon his inchoate right to the exclusive use of his invention, to which a patent would have entitled him, had it been applied for before such use. * * *” (P. 430.)

Two additional decisions which are appropos of Kierulff’s acquiescence and Metropolitan’s change of position are:

In *De Forest Co. v. United States*, 273 U. S. 236, the Supreme Court of the United States said (at page 241):

“* * * Any language used by the owner of the patent, or any conduct on his part exhibited to another from which that other may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license and a defense to an action for a tort. * * *”

In *Gate-Way v. Hillgren, et al.*, 82 Fed. Supp. 546, (In 181 F. 2d 1010, the United States Court of Appeals for the Ninth Circuit, “on the ground and for the reasons stated in its opinion, * * *” affirmed the judgment of the District Court), the District Court held (at page 555):

“The doctrine of the shop right is of equitable origin. The principle involved is that where an inventor or owner of an invention acquiesces in the use of the invention by another, particularly where he induces and assists in such use without demand for compensation or other notice of restriction of the right to continue, he will be deemed to have vested the user with an irrevocable, equitable license to use the invention. This situation

between the inventor and employer might, of course, arise by mutual agreement, but generally the situation arises where the inventor induces his employer to proceed and not only fails to object to the use, but stands by or assists, while permitting his employer to assume expense and put himself in a position where it would be to his detriment to be compelled to relinquish further use of the invention. *McClurg v. Kingsland*, 1 How, 202, 11 L. Ed. 102; *Solomons v. United States*, 137 U. S. 342, 11 S. Ct. 88, 34 L. Ed. 667; *Gill v. United States*, 160 U. S. 426, 16 S. Ct. 322, 40 L. Ed. 480. * * *

“While it is generally true that questions of shop right arise between employer and employee, such right is not restricted alone to the case of an employer, as the doctrine is only a phase of the broad doctrine of estoppel. **A shop right may arise through any permissive use of the invention**, and particularly so where the inventor instigates such use and participates in it. Robinson on Patents, vol. 2, p. 641, explains and illustrates such a situation.

“The doctrine is broad enough to include a case of the permissive use of a person other than an employer. *De Forest Radio v. United States*, 273 U. S. 236, 47 S. Ct. 366, 367, 71 L. Ed. 625.’ *Neon Signal Devices v. Alpha-Claude Neon Corporation*, D. C., 54 F. 2d 793, at page 794.”

The relationship between the parties, the full knowledge on the part of Kierulff, whereby he knew Metropolitan was being led to believe National had full rights to the scraploaders, and the duty and acquiescence out-

lined heretofore, clearly distinguish this case from the decisions of *Marsh v. Nichols, Shepard and Company*, 128 U. S. 605, 612; *M'Millin, et al. v. Barclay, et al.* (Cr. Ct., Pa. 1871), 16 Fed. Cas. 302; and *McWilliams Manufacturing Co. v. Blundell* (Cir. Ct., R. I., 1882), 11 Fed. 419, cited by Kierulff.

Metropolitan's Change of Position.

Metropolitan changed its position when, believing it had the right to make and use scraploaders of the design of the National scraploaders, it returned to the scraploading business.

Briefly, the evidence shows that Metropolitan, prior to World War II, loaded about 90 per cent of the scrap iron in the Los Angeles-Long Beach Harbor [Tr. 228, 229; B. 5, 6, 7, 8 and 9]. During the war, an embargo on scrap metal exportations caused Metropolitan to discontinue the scraploading business [Tr. 228, B. 5].

After the war Metropolitan was requested by scrap shippers to return to the scraploading business; but Metropolitan was reluctant to do so because of the lack of anticipated profit [Tr. 228, 235; B. 5].

During the latter part of 1954 and early part of 1955, the requests by scrap shippers persisted, so that Metropolitan "canvassed the country" with respect to magnets, and "searched the Coast" in its effort to find a commercially feasible scraploader [Tr. 228, 229; B. 5, 6]. Buchholz testified that he had not seen any scraploader, which he considered satisfactory, to justify a return to the scraploading business, *until* he saw the scraploading devices at National [Tr. 229, 235; B. 5, 6, 7, 8, 11].

Relying on National's permission that it could make and use scraploaders of the design of the National scraploaders, and believing that it had the right to so do, Metropolitan returned to the scraploading business [Tr. 170-W, 170-Y, 170-X, 170-Z; B. 7, 8, 9, 13, 14, 77 and 78], and obviously thereupon spent a great deal of time and money in developing a business.

Metropolitan changed its position when, believing it had the right to make and use scraploaders of the design of the National scraploaders, it, for the purpose of returning to the scraploading business, spent \$44,-389.02 to have three scraploaders of the design of the National scraploaders constructed [Ex. BA].

Metropolitan changed its position when, believing it had the right to make and use scraploaders of the design of the National scraploaders, it created business relations and good will with respect to the loading of scrap iron aboard ships.

Kierulff, in his Brief, devotes one paragraph at the top of page 36 to the effect that Metropolitan did not establish a change of position. The argument is based on the proposition that the rigs were ordered prior to Kierulff's visit to the Metropolitan scrapyard "so manifestly there has been no change of position in reliance on appellant's silence." As stated above, Metropolitan's change of position occurred at the time of its first visit to National in July of 1955, and its change of position occurred during the months of July, August and September, during which time structures were being inspected, drawings were being made and scraploaders were being constructed. Kierulff's duty to speak arose during Buchholz's first visit to National's yard in July of 1955.

It is clear from the facts that if Metropolitan were now deprived of its right to use these structures it would suffer irreparable injury. There are numerous cases indicating what constitutes a change of position, such as satisfies the law of estoppel or acquiescence, and a few of these cases will be referred to.

In *Gill v. United States*, 160 U. S. 426, the change of position was identical to the change of position in our present case, namely, the building and putting into operation a machine embodying Gill's invention.

Lukens Steel Co. v. American Locomotive Co., 197 F. 2d 939, 941 (C. A. 2), expresses very broadly the change required. It says:

“ * * * The vital principle, is, that he who, by his language or conduct, leads another to do what he would not otherwise have done, shall not subject such person to loss or injury by disappointing the expectations upon which he acted. Such a change of position is sternly forbidden * * *’.”

In *Neon Signal Devices v. Alpha-Claude Neon Corp.*, 54 F. 2d 793, 794, the District Court held that a change of position occurred where the employee permitted the employer to assume the expense of constructing a device “ * * * where it would be to his detriment to be compelled to relinquish further use of the invention. * * * ”

In our present case Metropolitan would suffer serious detriment if it were compelled to stop using the equipment and these facts are set forth in the first portion of this Section of our Brief.

Metropolitan's Reply to Kierulff's Argument on Implied License.

Kierulff's argument under the heading "A License" is contained on pages 31 to 41 of his Brief, and is divided into three points which we will answer in order.

Kierulff's Point (1).

Kierulff's heading under this point, appearing on page 31, reads as follows:

"(1) A holding of license, after hearing evidence on validity and infringement can have legal significance only if the Trial Court was convinced that appellee was using the patented invention (infringement) and that the patent was valid. If the patent is either invalid or not infringed, a holding of implied license is a futile judicial gesture."

We find absolutely no merit to Kierulff's contention that the Lower Court could not hold implied license unless it had reached the conclusion that the patent was valid and infringed.

There is no reason whatsoever why the Lower Court could not decide that Metropolitan has a license under the patent in suit and thus dispose of the law suit without going into the numerous defenses involving invalidity and non-infringement.

On page 7 of this Brief we have pointed out the decisions which make it clear that in a patent case the Court may dispose of the case by deciding only one of the issues involved.

This Court did not make "* * * a tacit finding of validity and infringement" as stated by Kierulff on page 32 of his brief. The best evidence of that is that the Court said it did not reach the issues of validity and infringement and the Court made no findings [R. 429].

Kierulff's Point (2).

Kierulff's heading under this point, appearing on page 32, reads as follows:

"(2) Appellee did not obtain an implied license, or license by estoppel, because at the time appellant observed the scraploaders in use at appellee's scraploading yard, appellant had no enforceable right and no duty to complain, and appellee did not change its position in reliance on appellant's silence."

Under this point Kierulff argues there is no implied license on two grounds: first, because at the time Kierulff observed the scraploaders in use at Metropolitan's scraploading yard, Kierulff had no enforceable right or duty to complain; and, second, Metropolitan did not change its position in reliance upon Kierulff's silence.

In this Brief, starting at pages 28-29 we have discussed in detail the rights which an inventor has after he has made his invention and prior to the time that he files his patent application.

In the middle of page 33 Kierulff erroneously states: "* * * Appellant had no enforceable right, indeed not even an inchoate right, at the time he witnessed the use of his invention. * * *". When Kierulff made his invention, it was his property,⁹ and he most certainly did have at least an inchoate right. This is clearly set forth in the case of *Gayler, et al. v. Wilder*, quoted on page 29 of this brief.

The case of *Marsh v. Nichols, Shepard and Company*,

⁹Under a separate defense that Kierulff made the invention as an employee of National, we also argued in the Lower Court that National owned the invention and granted Metropolitan a license. Inconsistent defenses may be pleaded in Patent Cases.

128 U. S. 605, cited by Kierulff, in the second line of page 34 quotes from *Gayler, et al. v. Wilder*, 10 How. 477, 493. This case, immediately following the quotation used from the *Nichols* case, states at 51 U. S. 493, starting at line 9:

“* * * But the discoverer of a new and useful improvement *is vested by law* with an inchoate right to its exclusive use, which he may perfect and make absolute by proceeding in the manner which the law requires. * * *”

Thus, even Kierulff's authorities point to the correct law.

In *M'Millin, et al. v. Barclay, et al.*, quoted at the bottom of page 34 of Kierulff's Brief, is an entirely different factual situation. Nevertheless, it does indicate that under the right facts and circumstances there may be equitable estoppel. The first six lines of Kierulff's quotation state:

“I have failed to discover any evidence upon which an equitable estoppel in favor of the respondents can rest. It must necessarily grow out of some declaration or act of the applicant, by which they were induced to believe that they might rightfully or innocently use the invention now claimed by him. * * *”

McWilliams Manufacturing Co. v. Blundell, quoted from on page 35 of Kierulff's Brief is a case in which at the time of the asserted estoppel plaintiff's patent had *already* issued. Hence, notice of plaintiff's rights was not a factor. As stated in Walker on Patents, “* * * All Letters Patent are recorded in the Patent Office. (U. S. Code, Title 35, §39.) This constitutes ‘notice to the world’ of their existence.” (Walker on Patents, Deller's Edition, Volume 3, p. 2176).

On page 36 Kierulff devotes one paragraph to the question of change of position. This point has been fully discussed in Metropolitan's Brief under the heading "Metropolitan's Change of Position", page 37.

Kierulff's Point (3).

Kierulff's heading under this point appearing on page 36 reads as follows:

"(3) Appellee could not have received a license from National (a stranger to this action) because National, at most, had only a personal and non-transferable 'shop right.' "

Kierulff is now confusing the two separate defenses referred to in the subnote on page 41.

Under the Court's ruling of an implied license from Kierulff to Metropolitan, Kierulff's argument under this point is irrelevant. Whether or not National owned the invention and granted Metropolitan a license is a defense not decided by the Lower Court. However, under *Gate-Way v. Hillgren, et al.*, 82 F. Supp. 546 (affirmed by this Circuit at 181 F. 2d 1010), a license and a shop right can exist concurrently. See 82 F. Supp. 554.

Starting on the last line of page 37, Kierulff erroneously states that National never made a claim to Kierulff's invention. This is not true. In 1955 Schapiro openly asserted his ownership and openly granted rights to others to make drawings and copy the scrap-loaders. See this Brief starting at pages 23-24. Furthermore, as fully discussed heretofore, Kierulff knew these facts, but remained quiet and allowed Metropolitan to be misled.

As a subheading under point (3), Kierulff states:

"a. The defense of equitable ownership in a stranger to the action (National) is not available to appellee." (P. 40).

Kierulff appears to answer the questions raised in this section when, on page 41, he admits: “* * * the decision refers specifically to an implied grant directly from appellant to appellee [R. 388].”

**Metropolitan's Reply to Additional Arguments in
Kierulff's Brief on Defenses Not Based on the
Trial Court's Findings of Fact.**

The major portion of Kierulff's Brief is directed to Metropolitan's defenses raised in the Lower Court but on which the Lower Court did not make findings. Kierulff's arguments on these other defenses start on page 41 of his Brief. We will answer his arguments in the order in which they appear.

**Metropolitan's Reply to Kierulff's Section "B. Public Use"
(Kierulff Brief, page 41).**

Under "Public Use" Kierulff's point (1) reads:

“(1) The jury rig cannot constitute ‘public use’ as it was substantially different in design from the patented invention.”

On page 41 of his Brief, Kierulff argues that the design of the jury rig was materially different from the patented rig so as not to constitute a bar. This is not so. The identity between the jury rig and the scraploader of the patent in suit satisfies the requirements of 35 U. S. C., Section 102.

Kierulff, on page 41, admits “the ‘invention’ of course means the claimed invention”. Metropolitan adopts this as an accurate statement of law. To show that “the claimed invention” is embodied in the jury rig, Exhibit AM, Metropolitan has applied the corresponding elements of claim 2 to Exhibit AM on the opposite page.

6217

8. a trolley (5, K. 223) comprising an open generally square rigid frame (6, K. 223) having two opposite sides spaced in accordance with the spacing of said beams, said opposite sides being guided and supported on said beams, a circular track (7, K. 223, 226), truss-support means rigidly connecting angularly spaced parts of said circular track to adjacent spaced parts of said generally square frame and positioning the same above and symmetrically with respect to said generally square frame,

D-2083-0
EX-13

HAND-WINCH

ROLLER

ROLLER

ROLLER

D-2081-0
EX-14

C. a turntable (12, K. 226) guided (by rollers 13, K. 227-228) for rotation and supported on said circular track and including centrally thereof

E. a chute suspension bar (32, K. 253) at one side of said turntable,

COAMING

D. chute-loading means projecting upwardly of and extending within said trolley and discharging between and below said beams, said chute-loading means comprising a single continuously upwardly open elongated downwardly inclined trough having a main body with an integral arcuate discharge end tangent thereto, the horizontal projection of said downwardly inclined trough spanning substantially the full diametrical extent of said circular track (30, K. 251-253),

D-2082-0
EX-15

EX-AM

A ship-loading crane, comprising

A. an elongated rigid rectangular frame (1, K. 220) including spaced beams (2, K. 220) adapted to span and rest upon opposite sides of a hatch coaming,

STRONGBACK
34

(33)

(36)

(35)

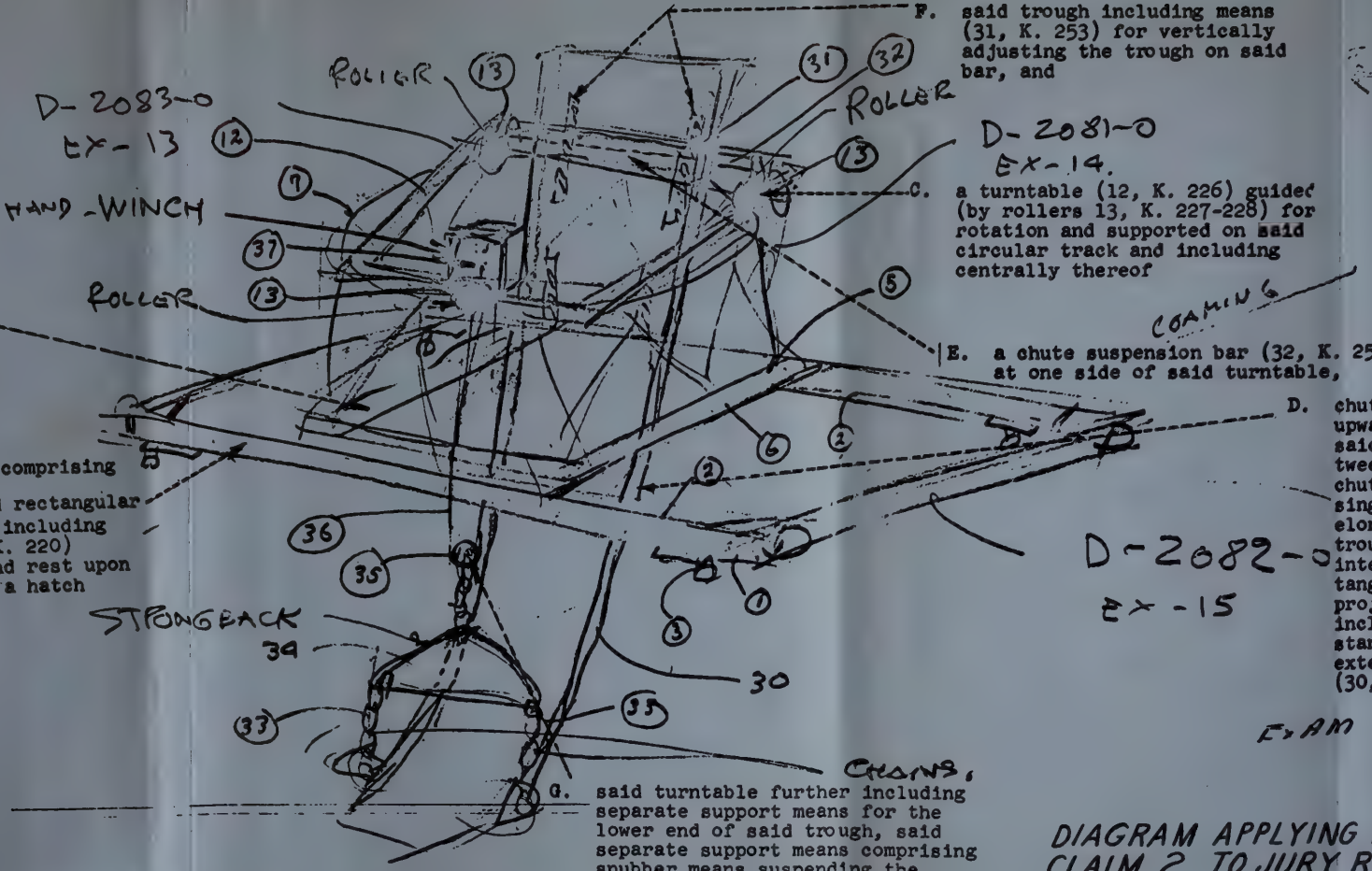
30

(35)

CHAINS,

G. said turntable further including separate support means for the lower end of said trough, said separate support means comprising snubber means suspending the lower end of said chute (33, 34, 35, 36, 37, K. 255-256) from the side of said turntable generally diametrically opposite from said bar.

DIAGRAM APPLYING ELEMENTS OF
CLAIM 2 TO JURY RIGS - EXHIBIT A M



The jury rig (there were two) was explained in detail by Kierulff starting on page 211 of his deposition.

In describing the structure shown in his sketch, Exhibit 29 to the Kierulff deposition, which is AM of the Trial Transcript, Kierulff numbered each of the parts.

Kierulff testified that the main parts of the jury rig, namely, the rectangular frame 1, the trolley 5 and the turntable 12, correspond to Modern Drawing D-2082-0, Exhibit 15 to the Kierulff deposition. Drawing D-2081-0, Exhibit 14 to the Kierulff deposition, and Drawing D-2083-0, Exhibit 13 to the Kierulff deposition. It will be noted that Kierulff has applied these drawing numbers and exhibit numbers to Exhibit AM.

Claim 2 has been divided into elements A to G, inclusive. The elements have been separated and are placed near to the part they refer to in order to avoid long lead lines.

Also, in each of the claim elements following the statement of a part referred to, we have placed in parenthesis the number of the part and the location in Kierulff's testimony where the description can be found. For example, taking Element A "an elongated rigid rectangular frame [1, K. 220]". The numeral "1" is the number of the elongated rigid rectangular frame as shown on Exhibit AM, and "K. 220", is the page of the deposition where this part is referred to.

With respect to the jury rigs as first used on June 21, 1955, Kierulff testified:

1. That the jury rig has recoil-absorbing chute-suspension means on the turntable [K. 251];
2. That the chute-suspension means includes "downwardly open elongated hook-shaped lugs car-

ried by said chute near the upper end thereof one of said lugs engaging said bar” [K. 252]; and

3. That the jury rig has “snubber means suspending the lower end of said chute from the opposite side of said turntable generally diametrically opposite said bar” [K. 252-253].

The case of *Paraffine Companies v. McEverlast, Inc.*, 84 F. 2d 335, involved the question of identity between the alleged public use device and the device of the patent in suit. The Court of Appeals for the Ninth Circuit held (at pp. 339 and 340) that the requisite identity was present because the alleged anticipating device embraced the features of novelty claimed in the patent in suit.

Under “Public Use” Kierulff’s point (2) on page 46 of his Brief reads:

“(2) The jury rig cannot constitute ‘public use’ of the patented invention, as its use was understood to be experimental by the inventor, the customer and others closely associated with the use.”

From June 21, 1955 to the Spring of 1956, the jury rigs were in public use because:

1. Continuously from the instance of their first use, the jury rigs were commercially successful, and used publicly for purposes of trade and profit.

2. The jury rigs were under the *exclusive* control of National, and not Kierulff.

In his Brief at pages 46-49, Kierulff inconsistently argues experimental use “even though the rig was sold for profit to National” (Kierulff Br. p. 48).

Schapiro testified that there was a commercial need for scraploading devices and that National’s purpose

in purchasing the jury rig was to supply that need. On page 170-I of the Trial Transcript, Schapiro said:

“Q. Now, at the time that you had these jury rigs built was there a commercial need in your organization for such a loading device? A. Yes, there was.

Q. And was it your purpose in purchasing these rigs that these jury rigs supply that need? A. Yes.”

Schapiro further testified that on June 21, 1955, the first ship was loaded with the jury rigs, that the use of the jury rigs in loading ships was commercial and that National got paid for the use of the jury rigs. He testified as follows:

“Q. When did you first load a ship with the jury rigs? A. We loaded our first rig—with the first rig on June 21, 1955.” [Tr. 170-G].

Q. Now, were those uses of the jury rigs in loading ships what you would classify as commercial jobs? A. We loaded ships which we had chartered; and we also loaded ships for concerns other than ours during this period of time.

Q. And you got paid for the use of these jury rigs? A. We did.” [Tr. 170-H].

The jury rigs when placed in use on June 21, 1955 were an immediate and outstanding success. Schapiro on page 170-H of the Trial Transcript testified that National received approximately \$4.25 to \$4.50 per ton for loading scrap with the jury rigs, and that the jury rigs were used to load 20 to 30 ships, the average ship having a capacity of 9100 tons [K. 141]. Thus, from June 21, 1955 to the Spring of 1956 [K. 140] when they were discarded because they were worn out

from use [Tr. 170-G], the jury rigs earned from \$773,500.00 (20 ships loaded) to \$1,160,250.00 (30 ships loaded).

During the crucial period—the period prior to October 9, 1955 (the application for the patent in suit was filed October 9, 1956, and the statutory bar period began to run October 9, 1955), the jury rigs were used to load three ships, each having a capacity of 9100 tons [K. 141, 142]. At the rate of \$4.25 per ton [Tr. 170-H], the jury rigs during the period June 21, 1955 to September 26, 1955 [K. 141] earned \$116,025.00 by loading the S. S. Atlantic Wave, Lagos Ontario and Arietta.

Moreover, the efficiency, time and monetary savings effected by the jury rigs are the attestations of their commercial success. Kierulff, in his answers to defendant's request for admissions under Rule 36 [R. 328, 329 and 330], admitted that the jury rigs decreased the loading time from a range of 21 to 18 days to a range of 14 to 12 days, decreased the loading time 40 per cent of what it had theretofore been, saved roughly \$136.00 per hour, effected a savings of approximately \$10,000.00 for each ship loaded, showed a substantial superiority over prior art equipment, and paid for themselves over and over again.

In *Electric Battery Co. v. Shimadzu*, 307 U. S. 5, 20, the Supreme Court of the United States said:

“* * * The ordinary use of a machine or the practice of a process in a factory in the usual course of producing articles for commercial purposes is a public use.”

In *Smith and Griggs Mfg. Co. v. Sprague*, 123 U. S. 249, 256, the Supreme Court of the United States said:

“* * * but where the use is mainly for the purposes of trade and profit, and the experiment is merely incidental to that, the principal and not the incident must give character to the use. * * *”

At the end of the Fabian Deposition [Ex. BQ], at page 40, lines 1 to 10, counsel for Kierulff stipulated:

“Mr. Calimafde: It is hereby stipulated by and between counsel that if Mr. Shapiro were called to testify he would state that the jury rig as illustrated in Exhibit 29 was in use at his scrap yard and docks to load a number of ships more than one year prior to October 8, 1956, and that the operation was as testified by Mr. Kierulff; that during the use of such rig no attempt was made to exclude the public from observing the use of such rig and that the employees were not sworn to secrecy.

“Mr. Whann: So stipulated.”

Thus, it is admitted that jury rigs went into public use. The proof and the above stipulation of public use more than a year prior to the filing date of the patent in suit, shifted the burden to Kierulff to establish by clear, full, unequivocal, and convincing evidence that the use was experimental.

In *Randolph v. Allis-Chalmers Manufacturing Co.* (C. A. 7, 1959), 264 F. 2d 533, at page 536, the Court said:

“The burden of proving that the public use for more than one year was necessary for the perfection of the invention by full, unequivocal and convincing proof was on the plaintiff. * * *”

In discussing the nature and character of an experimental use, the Court in *Randolph v. Allis-Chalmers Manufacturing Co.*, *supra*, at page 535 said:

“* * * however, use for experimental purposes must be conducted in good faith for the purpose of testing the qualities of the invention and for no other purpose not naturally incident thereto. *Hobbs v. Wisconsin Power & Light Company*, 7 Cir., 1957, 250 F. 2d 100, 108.”

It is significant that Kierulff was unable to produce any *facts* showing that the uses of the jury rigs were experimental. The evidence upon which Kierulff so heavily relies to establish “experimental use” is the characterization of the use as experimental by three witnesses. “Experimental use” is a question of fact, and ought not to be determined solely by the characterization of the use as “experimental”. In *Jordan v. Hemphill* (C. A. 4, 1950) 180 F. 2d 457, 462, the Court said:

“* * * ‘A very limited number’ of these machines were made and operated to produce fabrics or hosiery in 1927, according to Hutton, who characterized the machines as ‘experimental models.’ However, whether or not the use of a machine is or is not purely ‘experimental,’ is not to be determined solely on a mere characterization as such, particularly when this characterization comes from a deeply interested witness.”

Kierulff and Fabian, co-owners of the patent in suit, and, therefore, deeply interested witnesses, characterized the use of the jury rigs as “experimental”. Schapiro after being lead on cross-examination, and six

years after the use of the jury rigs, testified that "in looking back" he thought he was experimenting with the jury rigs [Tr. 170-WW].

When the jury rigs were put into use on June 21, 1955, it was obvious that the rigs should be larger and the turntable should be circular rather than trapezoidal. Accordingly, the 16-foot rig with the circular turntable was built and delivered to National on July 29, 1955 [Tr. 170-M, Exs. E and G].

If the jury rigs had not been commercially successful, Schapiro would have retired them and put the 16-foot rig into immediate use. But the jury rigs had already demonstrated their commercial success by earning \$38,000.00 in loading the S. S. Atlantic Wave and decreasing the loading time by forty per cent. Schapiro, therefore, continued to use the jury rigs to load scrap steel aboard ships *for profit*, and, according to Kierulff's contentions, allowed the 16-foot rig to lie idle on the National docks until the middle of October, 1955.

A further memorial to the great commercial success of the jury rigs is the fact that after the 16-foot rig was put into use, the jury rigs were used in conjunction with the 16-foot rig to load scrap steel aboard ships [R. 333, 334]. Indeed, the jury rigs were used together with the 16-foot rig, because the 16-foot rig did not have the capacity to satisfy the need at that time. Kierulff, on cross-examination, testified as follows:

"A. The reasons for their use was that the added 16-footer was not enough to load a ship, so therefore they continued with the two jury rigs."
[K. 482].

On or about July 31, 1955, one of the jury rigs was modified to include a snubber spring and a jib boom, as shown in Exhibits BD and BE. These alterations were not vital to the operation of the jury rigs. The snubber spring was nothing but a shock absorber to relieve the rest of the apparatus from heavy shocks, and the jib boom permitted the chute to be extended a greater lateral distance. Without the snubber spring and the jib boom the jury rigs had already successfully operated to earn substantial revenue for National.

In view of the astronomical profits and savings effected by the jury rigs and the fact that the addition of the snubber spring and jib boom constituted slight changes, and did not affect the principle of the jury rigs, Kierulff's position that the jury rigs were used experimentally is untenable.

In *Smith and Griggs Mfg. Co. v. Sprague*, 123 U. S. 249, the Court said (at page 265):

"* * * There are few machines, probably, which are not susceptible of further development and improvement, and the ingenuity of mechanics and inventors is commonly on the alert to discover defects and invent remedies. The alterations made in the machine in question, however useful, were not vital to its organization. Without them, it could and did work so as to be commercially successful."

In *E. L. Mansure Co. v. Consolidated Trimming Corp.* (D. C., S. D. N. Y., 1936), 16 F. Supp. 608, 609, 610, aff'd. 90 F. 2d 1006, the Court said:

"* * * But the issue is one of fact, and the weight of evidence is the other way, that the new machines

worked well from the start, *that they were in commercial operation all along, that the changes made were slight and did not affect the principle of the machine*, that while some loops were missed by the first machines, the missing was due to inexperience of the operators, and there is a certain amount of missing on to-day's machines. Certainly from the fall of 1917 on, commercial use was the principal use, experiment no more than the incident." (Emphasis added.)

In *W-R Co. v. Sova*, 106 F. 2d 478, the Court said (at p. 481):

"(3) Where the idea of an appliance has been conceived and the conception carried into effect by its construction, which is used or capable of being used for the purpose for which designed, it is no longer an experiment but an invention. (Citing cases.)

* * * * *

"At the time the appliance was removed and taken to the drafting department of the company, no further experimentation was necessary to perfect it. Nothing had to be done in a substantial way to change its character. It was a workable, commercial, valuable appliance. *Jenner v. Bowen*, 6 Cir., 139 F. 556."

The Jury Rigs Were Under the Exclusive Control of National and Were Not Within the Control and Direction of Kierulff.

At the time the jury rigs were built and sold by Modern to National, Kierulff was an engineer employed by Modern, delegated to do the engineering [R. 326, 327]. National placed the order for two jury rigs with

Modern and Modern built the important parts and delivered them to National. On June 20, 1955 Modern charged for time and material, including engineering time spent in designing. Modern's motive for making this sale was clearly profit and not experimentation [R. 324, Exs. D and BI]. The sale of the jury rigs conveyed complete unrestricted title to National. When the parts were delivered they were in the full possession and control of National. Kierulff had absolutely no control over the sale by Modern or the use by National.

Schapiro testified to these facts of possession and control as follows:

"Q. When these rigs were delivered to you in June of 1955 were they delivered to your possession and control? A. Yes, they were.

Q. And after that date did you exercise, or your company exercise, full control over the use of these rigs? A. We did." [Tr. 170-I].

It is well established law that if an invention is sold to a third party without any restriction or limitation or obligation of secrecy, whatever use the purchaser makes of the apparatus is a public use. *Elizabeth v. Pavement Co.*, 97 U. S. 126, 135, the leading United States Supreme Court authority for the "experimental use" doctrine, contains the following statement of law which is germane to the sale to and the unrestricted use by National:

"But if the inventor allows his machine to be used by other persons generally, either with or without compensation, or if it is, with his consent, put on sale for such use, then it will be in public use and on public sale, within the meaning of the law." (P. 135).

In *Randolph v. Allis-Chalmers Manufacturing Co.*, *supra*, the Court said at page 535:

“* * * ‘Public use’ may properly be defined as any utilization of the invention by one other than the inventor where the user is under no limitation, restriction or obligation of secrecy to the inventor. (Authorities cited). * * *”

Under the authority of these two cases, since it has been convincingly established that Kierulff exercised no control over the use of the two jury rigs, it then becomes immaterial whether or not the primary purpose of National was experimental or for profit.

Kierulff recognizes that the question of control by the inventor is an important factor. In his brief, on page 46, he states: “It is also important that the inventor maintain control over his invention.”

On page 48 Kierulff argues that “Shapiro further testified that appellant retained control over the design considerations of the rig during the experimental use * * *.” Kierulff cites pages 170-WW and 170-XX of the Trial Transcript in support of his argument that he retained control over the design considerations of the rig. Metropolitan feels compelled to answer this argument on two grounds:

First, Kierulff fails to distinguish the intangible from the tangible. If any other person uses the machine which contains the intangible design features of the invention, the requisite control is lost. In *Elizabeth v. Pavement Co.*, *supra*, the Court said: “So long as he does not voluntarily allow others to make it and use it, and so long as it is not on sale for general use, he keeps the invention under his own control, and does not lose his title to a patent.”

Secondly, it is difficult to understand Kierulff's reasoning in citing TR. 170-WW and 170-XX in support of his position that he retained control over the design considerations of the rig. The only portion of the material cited and relied upon which could in any way be pertinent is Mr. Calimafde's question [Tr. 170-WW]:

“Did you have an arrangement with Mr. Kierulff in regard to the control that he would exercise over the experimentation with the first jury rig and the first 16-foot rig, Mr. Schapiro?”

But Schapiro answered [Tr. 170-WW]:

“I don't understand that question.”

There is not one iota of evidence that Kierulff exercised any control or had any right to exercise any control over the jury rigs or over the 16-foot rig. As a part-time employee of National Kierulff performed services for National in accordance with instructions he received from Schapiro. The evidence shows that Schapiro exercised full control on behalf of National even to the extent of inviting competitors to see, make drawings of, and copy and use the equipment.

An overall survey of the evidence shows no material conflict of the facts relative to the public use of the two jury rigs. Summarizing the important facts:

1. There was a need for a scraploader at the time National ordered the jury rigs built by Modern [Tr. 170-I];
2. They were purchased to satisfy this need [Tr. 170-I];
3. National had exclusive control over them [Tr. 170-I];

4. They were publicly used [Fabian 40, Tr. 170-H];
5. They were used for profit [Tr. 170-H];
6. From the very first they were overwhelmingly successful [R. 328-330];
7. They were in continuous use long after the 16-foot rig was delivered to National [R. 333, K. 482];
8. The jury rigs were used concurrently with the 16-foot rig because the 16-foot rig was inadequate [K. 482]; and
9. They were, in fact, used until worn out [Tr. 170-G].

We respectfully submit that Kierulff's argument that these uses were experimental because they were understood to be experimental (Kierulff Br. p. 46), is wholly inadequate to overcome the bold facts of commercial use for profit as shown above.

Metropolitan's Reply to Kierulff Section "C. Partial Conclusion of the 'Basic' Issues" (Kierulff Brief page 53).

In the Lower Court we urged invalidity and non-infringement based on all defenses pleaded, introduced in evidence and argued. Metropolitan prevailed in this litigation on one defense, namely, implied license. Should this Court not agree with the Lower Court, Metropolitan urges that there is invalidity and noninfringement based on all of the other defenses.

Metropolitan's Reply to Kierulff's Section "D. Prior Sale" (Kierulff Brief page 54).

The facts supporting prior "on sale" which would invalidate the patent in suit are contained in plaintiff's Admissions under Rule 36, Admissions Nos. 147 to 156 [R. 353-355].

Under 35 U. S. C. Section 102(b) it is only necessary that Metropolitan establish that the scraploader of the patent in suit was "on sale" more than a year prior to the filing date of the patent in suit.

In August, 1955, when Kierulff offered to sell three scraploaders of the design of the patent in suit to Metropolitan, the asserted unique parts of this scraploader had been delivered to National and Metropolitan and its fabricator Wilmington had inspected such structures. In fact, they were favorably impressed and, upon permission of National, had taken measurements and made sketches.

Prior to his visit Kierulff had made an arrangement with Modern under which Modern could manufacture and sell these scraploaders [R. 351, K. 334, 335]. When Kierulff, on behalf of Modern offered to sell three scraploaders to Metropolitan, the written offer of sale and the detailed specifications attached thereto, Exhibits AT and AU, were the *exact structure which Metropolitan had seen at National*.

It is believed that the case of *Chicopee Mfg. Corp. v. Columbus Fiber Mills Co.*, 165 F. Supp. 307, correctly sets forth the rule of law which should be applied here. In that case the Court held that there was an "on sale" within the meaning of 35 U. S. C. §102(b) which invalidated the patent in suit. There had been no actual sale or delivery more than a year prior to the filing date of the patent in suit. In the *Chicopee* case, the prospective customer was shown samples. In our present case Metropolitan saw the actual structure at National and the offer to sell by Modern contained the exact specifications of parts of the structure which Metropolitan had previously seen at National. The

Chicopee case, starting on page 323 of 165 F. Supp. presents what we believe to be the correct analysis of the “on sale” law. The Court, on page 325, right-hand column says:

“This Court recognizes the force of plaintiff’s argument that there is a valid basis for holding ‘on sale’ to embrace only that conduct which ‘creates an opportunity for present public use,’ as held in *Burke Electric Co. v. Independent Pneumatic Tool Co.*, supra, but is of the opinion that in the instant case plaintiff’s conduct created just such an opportunity. The cloth represented by P-47 was completed in 1947. The plaintiff was satisfied with it and solicited orders with the then present ability and desire to fill the same. * * *

In our present case the structure had been completely designed, exact details and drawings had been made, a structure had been delivered to National, Metropolitan had seen the structure, and Kierulff, acting on behalf of Modern, being satisfied with it, solicited orders with the then present ability and desire to fill the same.

We believe the law is clear and that Kierulff’s activities warrant holding his patent invalid on the ground of “on sale” more than a year prior to his filing date.

**Metropolitan’s Reply to Kierulff’s Section “E. Prior Art”
(Kierulff Brief page 55).**

Kierulff’s discussion of the subject “Prior Art” starts at page 55 and continues through to page 63. For the most part it deals with presumptions of validity and misses the essential proposition on which Metropolitan in the Lower Court asserted that the patent in suit was invalid.

The patent to Guhlen, *et al.*, No. 2,186,292, found in Exhibit B, book of prior art references, shows the entire combination of elements, except the turntable is not a ring-shaped turntable, as shown in the patent in suit. Kierulff testified that Guhlin, *et al.* dealt with the same problem he was facing [K. 379]. It was Metropolitan's position in the Lower Court that the claims of the patent in suit are limited by file wrapper estoppel to a snubber spring. However, Kierulff has argued that the claims are not limited to a snubber spring and has admitted that the snubbing action of Kierulff is performed by the cable 60 of Guhlin, *et al.*

Kierulff's counsel, on page 2 of plaintiff's Supplemental Memorandum in Support of Motion for Reargument and Reconsideration Filed March 22, 1961 [R. 239] stated:

"On page seventeen, Mr. Whann advances the argument that if snubber means is construed to cover simply a wire rope then such snubber means is disclosed in the Guhlin *et al.* patent. With this contention we agree. * * *" [R. 240, lines 6-9].

It is also Metropolitan's position that the jury rig, Exhibit AM, became a part of the prior art when it went into public use in June of 1955. That structure also includes all of the elements except that the turntable is not ringshaped. At this point it should be remembered that claims 2 and 3 are not limited to a "ring-shaped turntable", and, therefore, under Kierulff's construction of the claims those two claims squarely read on the jury rig as it existed in June of 1955, the jury rig as it existed in August of 1955, after the snubber spring had been added to it, and the structure disclosed in the Guhlin, *et al.* patent.

Metropolitan's expert witness, John L. Ryde, testified that ring-shaped turntables were old in the art and to show this referred to the patents to Moore No. 221,848, Bradford No. 619,128 and to Mullen No. 635,391, all in Exhibit BH [Tr. 256, 257 and 259].

It is the position of Metropolitan that using a ring-shaped turntable on the jury rig, Exhibit AM, or in the structure of the Guhlin, *et al.* Patent No. 2,186,292, is a mere aggregation because no new result is accomplished. Mr. Ryde testified as follows:

"Q. Now, do you find any different cooperation in the circular turntable and base of the Kierulff patent than you find in the prior art which you have talked about? A. Not insofar as the turntable. No, there is no difference in the way the turntable operates.

Q. If you take the jury rig of Exhibit AM and substitute a circular table for the trapezoidal table, is there any new co-action between the parts? A. No.

Q. Do they each perform the same function which they performed before? A. Each performs the same function as they performed before.

The Court: Is there a different result produced?

The Witness: No different result is produced."
[Tr. 259-260].

It is well established law that aggregation such as we have claimed in the Kierulff patent is unpatentable. See *Lincoln Engineering Co. v. Stewart-Warner Corp.*, 303 U. S. 545, which states at page 549:

"* * * The mere aggregation of a number of old parts or elements which, in the aggregation, perform or produce no new or different function or operation than that theretofore performed or produced by them is not patentable invention. * * *"

Also see *Pursche v. Atlas Scraper and Engineering Co.*, 300 F. 2d 467, 475, wherein this Court's decision in *Eagle v. P. & C. Hand Forged Tool Co.*, 74 F. 2d 918, 920 is quoted.

It appears that at the time (May or early June, 1955) drawings were being made for the jury rig, various alternatives for the shape of the table were considered. Exhibit 12 to the Kierulff deposition, in the upper left-hand corner shows a triangular frame, a trapezoidal frame, and a horseshoe-shaped frame, in which at least one-half of the turntable was circular. Faintly below these different frame shapes is an outline of a circular shape and it may well be that a circular turntable was considered at that time, particularly since Kierulff testified that he was familiar with circular turntables [K. 515].

Metropolitan's Reply to Kierulff's Section "F. Conclusion on Validity" (Kierulff Brief page 63).

In view of the fact that the substitution of a ring-shaped turntable for a trapezoidal-shaped turntable does not produce any new results *in combination*, the claimed structure is a mere unpatentable aggregation and the claims are, therefore, invalid. It is only claim 1 which is limited to the ring-shaped turntable. The other two claims, 2 and 3, are invalid in view of the prior art, particularly Guhlin, *et al.* and the jury rigs of Exhibit AM.

Metropolitan's Reply to Kierulff's Section "G. Infringement" (Kierulff Brief page 63).

There is no dispute that the original Metropolitan structures, while embodying substantial improvements, include the elements of Kierulff's patent claims, except for the limitation in claim 1 which reads "the

upper frame defining a circular track substantially spaced above said lower frame by substantially the deck-to-deck spacing of a ship." Metropolitan, after being charged with infringement, eliminated the snubber spring in its structure, which is equivalent to the spring 36 of the patent in suit; and filed a counterclaim to bring this revised structure in issue. Metropolitan made a Motion for Summary Judgment [R. 201] and after numerous hearings and rehearings Summary Judgment was granted [R. 213], which held that the Metropolitan structures as modified to eliminate the snubber spring *did not infringe any of the claims of the Kierulff patent*. The Findings of Fact, Conclusions of Law and Partial Summary Judgment appear in the Record, pages 234-239.

At the conclusion of the trial the Court withdrew its Findings of Fact, Conclusions of Law and Partial Summary Judgment and decided the entire case solely on the question of license.

It is submitted that the Partial Summary Judgment [R. 238] is correct as to facts and law; and that even in the absence of a license, Metropolitan's *present* structures do not infringe any of the claims of the patent in suit because such claims are limited by file wrapper estoppel.

Metropolitan's Reply to Kierulff's Section "H. Damages and Attorneys' Fees" (Kierulff Brief page 76).

Kierulff states:

"In view of the admitted falsification of real evidence, the contradictory testimony given by appellee's witnesses, the dispute in open court between appellee's counsel and one of his witnesses regarding the veracity of his testimony, and the

wilful and deliberate copying of appellant's invention, this case qualifies as exceptional under 35 U. S. C. §284 and §285."

Kierulff's accusation of falsification of evidence is without any foundation and is frivolous.

The facts concerning the time of making the drawing Exhibit BL are as follows: prior to the time Kierulff took Buchholz deposition Mr. Calimafde requested Metropolitan to produce all drawings, photographs, etc. The drawing, Exhibit A to the Buchholz deposition, was one of a number of drawings produced. This drawing, on its face, showed many erasures, some of which were referred to at the deposition [B. 16, 17 and 18]. In fact, the drawing was changed shortly before defendant's answer and counterclaim was filed, in order that it would serve as an exhibit thereto [R. 21].

Mr. Calimafde asked questions about the drawing and had it marked for identification [B. 15]. After the conclusion of the Buchholz deposition, Mr. Calimafde then withdrew this drawing, Exhibit A for identification, making the following statement:

"Mr. Calimafde: I wish to withdraw from Plaintiff's Exhibits Exhibit A, which I offered for identification, on the grounds that it is hearsay, it is apparently a sketch drawn by an individual with the initials R.H.S. who has not appeared to testify that he made the drawing, also for the reason that Mr. Buchholz has testified that he did not see the draftsman prepare the drawing; further, for the reason that the drawing exhibits many erasures and suggests alterations and changes. These are all the reasons I can think of right

now. Maybe a little more time and I can think of a few more. But it constitutes the worst kind of hearsay evidence, therefore, I withdraw it from Plaintiff's Exhibits.

"Further, I move to strike all of Mr. Buchholz' testimony which bears on the date appearing on Exhibit A. The drawing, insofar as it illustrates a rig with a circular turntable, may be used for purposes of discussion and some discussion has been made by both Mr. Buchholz and Mr. Kierulff in regard to the accused equipment. Defendant's Exhibit 39 is a photocopy of the vellum of Exhibit A.

"Now to the extent that the photocopy is used to illustrate a piece of accused apparatus, Plaintiff does not object. To the extent that Exhibit A or any photocopy thereof is used to establish the veracity or correctness of the date of August 1, 1955, we move to strike the Exhibit and all the testimony relating thereto.

"It served its purpose, but I just wanted to be sure its purpose was understood by all." [K. 509-510].

Shortly before trial it was learned that the draftsman Shanley was working for the U. S. Borax & Chemical Corporation at Carlsbad, New Mexico. He was contacted and agreed to make the trip to Los Angeles to testify as to his knowledge of the facts.

Metropolitan put Shanley on the stand and at that time he produced prints of drawings which had been in his possession continuously since 1955, when they were made, until they were turned over to Metropolitan's counsel shortly before trial.

On direct examination Shanley testified that his records showed that he made the drawings Exhibits BL and BK on Thursday the 25th of August, 1955 [Tr. 193]. On cross-examination, Mr. Calimafde questioned Shanley as to how the date of August 1, 1955 got on the drawings. Shanley testified he did not know why the drawings which he made on August 25 were dated August 1 [Tr. 200].

Buchholz testified in his deposition that he saw the drawing Exhibit A for identification, "about August 1, 1955," and when his attention was called to the fact there was apparently an erasure where the date appeared on the drawing, Buchholz stated that he believed the date of August 1 was correct [B. 15].

At the trial, on cross-examination by Mr. Calimafde, Buchholz's attention was called to his statement about seeing a drawing about August 1, 1955 [Tr. 238]. He was then shown Exhibit BK, one of the prints produced by Shanley from his files, and Buchholz testified that Exhibit BK might correspond to the drawing he had testified about during his deposition [Tr. 240]. Calimafde then called his attention to his answer of seeing the drawing "about August 1, 1955", and Buchholz answered:

"A. Somewhere along this time, yes. I don't believe I ever received one. I saw this thing every day down on Mr. Stone's desk." [Tr. 240].

From these facts Mr. Calimafde draws his baseless conclusion that "the false date, August 1, 1955, was obviously placed on the drawing in support of Buchholz's testimony that he had seen the drawing Ex. BL prior to Kierulff's visit on August 23, 1955. * * *" (Kierulff Br. p. 76, last paragraph).

At the time Buchholz testified he had no diary nor memorandum to refresh his recollection, and counsel for Metropolitan believes that a more logical conclusion would be that Buchholz, assuming the date of August 1, 1955 to be correct, used that date as the date that he first saw the drawing. Also we believe it more logical to conclude that the drawing Exhibit BL was not predated for fraudulent reasons, but was probably predated because Shanley made the drawing from sketches furnished by Stone; and Stone had made his sketches during a visit to National's yard during the first part of August, 1955.

Kierulff, next to last paragraph on page 76 of his Brief, states: "At the trial, for the first time, we learned that the now infamous drawing [Ex. BL], which appellee held out as its cornerstone of the public use defense was falsified." This statement is incorrect on two grounds:

First, the cornerstone, if such term is to be used, for Metropolitan's defense of prior public use, is the structures which were made by Modern, and shown in the sketch Exhibit AM, which Kierulff made and described in detail during his deposition, to explain the construction of the jury rigs as first used on June 21, 1955.

Second, from the very first it was known that this drawing, Exhibit A, had been changed many times and it was observed that erasures had been made in many places. As a matter of fact, promptly after the conclusion of the Buchholz deposition, Mr. Calimafde disclaimed any reliance on the drawing and withdrew it from evidence as referred to above.

Metropolitan never at any time relied on the drawing, Exhibit A to the Buchholz deposition, or Exhibits BL and BK, and has never asserted that the drawings were made prior to August 25, 1955, the date Metropolitan's witness Shanley testified that he made the drawing.

The evidence clearly shows, as discussed heretofore, that Stone, Ponsen, Buchholz and Brunskill saw the jury rigs and the 16-foot rig at National's yard in July or August, 1955 [Find. 9, R. 424, Find. 12, R. 424-425, and Find. 13, R. 425, Tr. 233]. The 16-foot rig was seen and measured by Ponsen and Stone during the early part of August, 1955. See this Brief pp. 18-19 wherein the testimony is quoted.

The evidence was all before the Lower Court and the Court made no finding of fraud or falsification. It was Metropolitan which produced Shanley whose positive testimony established the exact date that Exhibits BL and BK were made.

This Court should not consider Kierulff's argument with respect to treble damages and attorneys' fees because:

1. Treble damages and attorneys' fees may be awarded only to the prevailing party *in the District Court*.
2. Treble damages and attorneys' fees are allowable in the discretion of the District Court, *not the Court of Appeals*.

3. Kierulff is not entitled to treble damages and attorneys' fees because the Trial Court did not make a finding of unfairness or bad faith.

4. Kierulff waived his right to a consideration by this Court of his arguments with respect to treble damages and attorneys' fees because his Statement of Points on Which He Intends to Rely contained no point or points with respect to treble damages or attorneys' fees.

Treble Damages and Attorneys' Fees May Be Awarded Only to the Prevailing Party in the District Court.

Section 284 of Title 35, U. S. C. provides in part:

"Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

"When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed." (Emphasis added.)

Section 285 of Title 35, U. S. C. provides:

"The court in exceptional cases may award reasonable attorney fees to *the prevailing party*. July 19, 1952, c. 950, §1, 66 Stat. 813." (Emphasis added.)

Kierulff, who is seeking treble damages and attorneys' fees, was not the prevailing party in the District Court.

Treble Damages and Attorneys' Fees Are Allowable in the Discretion of the District Court, Not the Court of Appeals.

In *Randolph Laboratories v. Specialties Develop. Corp.*, 213 F. 2d 873, the Court of Appeals for the Third Circuit said (at page 875):

“* * * Treble damages and attorneys fees are also allowable *only* in the discretion of the district court. * * *”

See also, *Kemart Corporation v. Printing Arts Research Lab., Inc.*, 269 F. 2d 375, at page 394.

Since Metropolitan was the prevailing party in the District Court, it can hardly be argued that the District Court abused its discretion by failing to award attorneys' fees to the losing party Kierulff.

Kierulff Is Not Entitled to Treble Damages and Attorneys' Fees Because the Trial Court Did Not Make a Finding of Unfairness or Bad Faith.

As previously stated (Metro. Br. p. 1), the Trial Court's findings of fact were limited to the single issue of implied license. This Court in *Rohr Aircraft Corporation v. Rubber Teck, Inc.* (C. A. 9, April 21, 1959), 266 F. 2d 613, said (at page 624):

“The law is clear on the question of attorneys' fees, and was stated by this Court in *Park-In-Theatres v. Perkins*, 9 Cir., 1951, 190 F. 2d 137, 142, that in patent cases attorneys' fees should be awarded only in extraordinary cases, ‘*bottomed upon a finding of unfairness or bad faith.*’ See 35 U.S.C. §285, authorizing courts ‘in exceptional cases’ to award reasonable attorney fees.”

It is therefore submitted that since Kierulff's request for attorneys' fees is not supported by a finding of unfairness or bad faith, he is not entitled to an award of attorneys' fees.

Kierulff Waived His Right to a Consideration by This Court of His Arguments With Respect to Treble Damages and Attorneys' Fees Because His Statement of Points on Which He Intends to Rely Contained No Point or Points With Respect to Treble Damages or Attorneys' Fees.

Kierulff's Statement of Points on Appeal [R. 432] includes fourteen paragraphs, but not one of these paragraphs relates to treble damages or attorneys' fees. Kierulff, pursuant to Rule 17.6, Rules of the United States Court of Appeals for the Ninth Circuit, filed a document entitled, "Appellant's Notice of Adoption of Points on Appeal and Designation of Record on Appeal," in which he adopted his statement of points on appeal under Rule 75(d), F.R.C.P. Thus, Kierulff, at the time he filed the record in this Court, restricted the points on which he intended to rely to those contained in the fourteen paragraphs of his statement of points on appeal under Rule 75(d), F.R.C.P., and waived his right to a consideration by this court of his arguments with respect to treble damages and attorneys' fees. (See Argument and Law in this brief starting at p. 4).

Conclusion.

It is respectfully submitted that the Trial Court was correct in deciding that Metropolitan acquired a royalty-free implied license to make and use the scraploaders of the patent in suit, and that the judgment of the Trial Court should be affirmed.

Respectfully submitted,

R. WELTON WHANN,
ROBERT M. McMANIGAL,
JAMES M. NAYLOR,
WELTON B. WHANN,

Attorneys for Appellee.

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

R. WELTON WHANN

No. 17712 ✓

In The

UNITED STATES COURT OF APPEALS

For the Ninth Circuit

PACIFIC PLYWOOD CO., a Corporation, Petitioner,
vs.

NATIONAL LABOR RELATIONS BOARD, Respondent.

BRIEF FOR PETITIONER, PACIFIC PLYWOOD CO.

Upon Review from the National Labor Relations Board

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GEDDES, FELKER, WALTON & RICHMOND
JAMES G. RICHMOND
Box 1265
Roseburg, Oregon
Attorneys for Petitioner, Pacific Plywood Co.

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BRIEF FOR PETITIONER, PACIFIC PLYWOOD CO.

Upon Review from the National Labor Relations Board.

STATEMENT OF JURISDICTION

These proceedings originated in a charge filed against Petitioner, Pacific Plywood Co., hereinafter in this brief designated as "Petitioner", by Local Union No. 3-436, International Woodworkers of America, AFL-CIO, hereinafter designated as "IWA", on the 15th day of February, 1961, before the National Labor Relations Board, charging the Petitioner with certain alleged unfair labor practices under the National Labor Relations Act.

After hearing, the Trial Examiner, on July 5, 1961, issued his

Intermediate Report and Findings and Conclusions of Law that Petitioner had engaged in unfair labor practices within the meaning of the Act.

After exceptions filed by Petitioner, the National Labor Relations Board, on November 27, 1961, issued its Decision and Order affirming and adopting the Findings and Conclusions and Recommendations of the Trial Examiner that the Petitioner had been guilty of unfair labor practices and making certain orders in connection therewith as set out in said Decision and Order.

The Petitioner transacts business within the Judicial District of Oregon wherein the alleged unfair labor practices are said to have occurred. This Court, therefore, has jurisdiction of this matter by virtue of Section 10(f) of the National Labor Relations Act, as amended.

STATEMENT OF THE CASE

One Sally Pruitt was employed by Petitioner at its Dillard, Oregon plant as a tile grader in that company's Sierra Division, which division was engaged in finishing the Petitioner's particle board product into flooring tile, marketed under the brand name, "Par-TILE". The Independent Particle Board Employees, Inc., hereinafter designated as "Respondent Union", was the certified bargaining agent for the employees of Petitioner in the Sierra Division by virtue of a contract between Petitioner and Respondent Union. The plywood portion of Petitioner's operation was covered by a contract with IWA which embraced approximately 150 men. Sixty-seven employees of Petitioner were members of and represented by the Respondent Union.

Early in September of 1960, Mrs. Pruitt was selected as shop steward for Respondent Union and as such shop steward she processed a grievance concerning her brother-in-law, one Ray Pruitt. She became embittered at her fellow employees because she felt that they failed to sustain her in the manner in which she handled her brother-in-law's grievance. Her manner and conduct became so objectionable to those with whom she worked and came in contact that the morale of the entire operation was affected.

In early November of 1960, Mrs. Pruitt was tried and expelled from Respondent Union because of her activities which the membership considered detrimental to it. At that time she contacted N.L.R.B. officials in Portland and Seattle and thereafter, without revealing that she had made such a contact, she proceeded in a course of conduct calculated to harm Respondent Union and to force it into actions which she could contend were discriminatory. After her expulsion from Respondent Union, her troublemaking continued until four of her fellow employees directed a letter to Petitioner advising it that they would quit their jobs if it did not dispense with the services of Mrs. Pruitt.

At about the same time, sixteen of her fellow employees executed a petition to Petitioner requesting that it immediately act to remove Mrs. Pruitt from its employment upon the ground that she was a troublemaker and had willingly and indiscreetly done harm to her fellow employees in hampering their work whenever and wherever she could and by keeping a disturbance among them. When the letters and the petition were received by Petitioner, the officials of Petitioner, who had been aware for a considerable period of Mrs. Pruitt's activities and the

turmoil she was creating, decided to discharge her and did discharge her on December 27, 1960.

Records of Petitioner, completed and dated at the time of Mrs. Pruitt's discharge, show that she was discharged for incompatibility. The IWA has insisted and subsequently the N.L.R.B. has contended that Pruitt was discharged because she was not a member of Respondent Union. Petitioner has denied those allegations and continues to deny them and affirmatively states that they are false.

After Mrs. Pruitt's discharge, the IWA filed charges with the N.L.R.B. and subsequently a complaint was filed alleging in paragraph IX that:

"Pacific did discharge and failed and refused and continues to fail and refuse to reinstate the employee referred to above (Mrs. Pruitt) in Paragraph VIII because said employee was not a member of Independent."

Petitioner answered the complaint denying the above allegation and affirmatively alleging:

"That for some time prior to the 23rd day of December, 1960, Sally Pruitt, an employee of Pacific, engaged in conduct which caused tension, disturbance, dissension and loss of morale among the other employees of Pacific. That as a result of said conduct, Pacific did discharge Sally Pruitt as an employee of Pacific on or about the 23rd day of December, 1960, from employment at Pacific's plant at Dillard, Oregon. That the grounds and reasons for discharging said Sally Pruitt is solely her own conduct and the effect of that conduct upon the other employees."

With the foregoing allegation, denial, and affirmative allegation, the issue at the hearing was clearly drawn. There were other charges and allegations but the sole remaining issue was posed by the above quotations.

The Trial Examiner held that the Petitioner did discharge Mrs. Pruitt because she was not a member of Respondent Union and that that discharge was an unfair labor practice within the meaning of Section 8(a)(3) and Section 8(a)(1) of the National Labor Relations Act.

The Intermediate Report and Recommended Order of the Trial Examiner was adopted in its entirety as the Decision and Order of the National Labor Relations Board and the Petitioner has asked this Court to review that Decision and Order.

QUESTIONS INVOLVED

1. Whether there is substantial evidence upon the record considered as a whole to support the Findings of Fact and Conclusions of Law upon which the Decision and Order of the National Labor Relations Board was based?

2. Whether the National Labor Relations Board prejudiced the rights of Petitioner and erred in failing to reverse the ruling of the Trial Examiner in overruling Petitioner's objection to the introduction of evidence relative to a grievance committee matter involving Mrs. Pruitt and her brother-in-law, one Ray Pruitt?

3. Whether the National Labor Relations Board prejudiced the rights of Petitioner and erred in failing to reverse the ruling of the Trial Examiner sustaining the General Counsel's object to the introduction of certain testimony as to Mrs. Pruitt's statement and attitude toward her fellow employees.

SPECIFICATION OF ERROR, NUMBER ONE.

That the National Labor Relations Board erred in making and entering its Decision and Order and the whole thereof upon the ground that said Decision and Order and the whole thereof is unsupported by Conclusions of Law and Findings of Fact supported by substantial evidence upon the record considered as a whole and is contrary to law.

SPECIFICATION OF ERROR, NUMBER TWO.

That the National Labor Relations Board erred and prejudiced the rights of Petitioner in failing to reverse the ruling of the Trial Examiner overruling Petitioner's objection upon the grounds of irrelevancy and immateriality to the introduction of testimony pertaining to a grievance committee matter involving Mrs. Pruitt and her brother-in-law. (Transcript of Testimony, page 81, lines 4-25, page 82; page 83, lines 1-10.)

SPECIFICATION OF ERROR, NUMBER THREE.

That the National Labor Relations Board erred and prejudiced the rights of Petitioner in sustaining the Trial Examiner's ruling sustaining the General Counsel's objections upon the ground of immateriality and irrelevance to the introduction of evidence offered by Petitioner relative to derogatory statements and opinions by Mrs. Pruitt concerning her fellow workers. (Transcript of Testimony, page 196, lines 10-25; page 197; page 198; page 199; page 200, lines 1-9.)

SPECIFICATION OF ERROR, NUMBER FOUR.

That the National Labor Relations Board erred and prejudiced the rights of the Petitioner when it adopted and approved the following

Findings of Fact as found by the Trial Examiner in his Intermediate Report, hereinafter designated as "I.R.", because the same are not supported by substantial evidence on the record considered as a whole, and each of said findings is contrary to law and the whole of the evidence:

- a. That "The issue presented is whether she was discharged by Respondent Company because of complaints by four fellow workers concerning her temperament and disposition coupled with threats that the four would resign if Pruitt remained as an employee or whether Respondent Union caused her discharge by cancelling her dues checkoff, ousting her from union membership for nonpayment of dues and by requesting the application of a union shop clause to terminate her employment because she was not a union member." (I.R. Page 2, lines 17-23.)
- b. That "Respondent Union was certified in October, 1959, as the bargaining representative of approximately 16 employees in the Particle Board Division located in other buildings." (I.R. Page 2, lines 32-35.)
- c. That "Forrest told Pruitt, as the latter testified, to 'keep your union dues paid, and there will be nothing come through this office.'". (I.R. Page 3, lines 37-39.)
- d. That "Forrest admitted that he ascertained from Pruitt that her dues were current and told her that the contract required no more of her." (I.R. Page 3, lines 43-45.)
- e. That "It may also be noted that Frashour testified he had contacted local counsel as well as a representative of an employer association concerning the application of Article III and was advised that this obligated the employer to discharge only a new employee for nonpayment of dues and was not applicable to existing employees." (I.R. Page 4, lines 33-36.)
- f. That "As noted, Forrest had told Pruitt during November, that if her dues were paid, she would not have any employment problems." (I.R. Page 4, lines 48-50.)
- g. That "All of these documents were received at the offices of Respondent Company on December 23, 1960, the very day on which the decision was made to terminate Pruitt. In fact, all were so stamped by Respondent Company." (I.R. Page 5, lines 5-7.)

- h. That "An issue herein is the weight attributed by Respondent Company to certain documents submitted to it in connection with Pruitt." (I.R. Page 5, lines 1-2).
- i. That "In view of the time taken to procure the signatures to the petition and the fact that the petition bears the date of December 13, I find as Pruitt and employee Alma Hanley testified, that December 12th is probably the correct date." (I.R. Page 5, lines 35-38).
- j. That "This is consistent with the testimony of Vice President Pryce of Respondent Union that he had Wilson prepare for him, Pryce then circulated the petition, signed it himself and after all or substantially all of the employees in the unit signed, returned it to Wilson." (I.R. Page 6, lines 1-4).
- k. That "Of course the testimony of Pryce and Wilson that they handled this matter as individuals is their own conclusion and moreover is not supported by fact." (I.R. Page 6, lines 8-10.)
- l. That "Indeed, Forrest recognized the return address on the envelope which bore the initials I.P.B.E.I. as that of the Respondent Union." (I.R. Page 6, lines 12-13).
- m. That "I find in view of the history of the document that precisely the contrary inference is warranted. This is supported by the testimony of Bernard Meskill that union trustee Boucock made a motion at the December meeting that such a petition be circulated; the testimony of Alma Hanley that Boucock spoke at the meeting in favor of such petition; and the testimony of Meskill that it was voted on favorably at this meeting." (I.R. Page 6, lines 15-21).
- n. That "The content of the petition clearly makes reference to the prior union action during the previous month when Respondent Company was asked by Respondent Union to invoke the union's security language of their contract and terminate Pruitt." (I.R. Page 6, lines 23-26).
- o. That "The petition I find certainly put Respondent Company on notice that the signers, including Vice President Pryce, were seeking the discharge of Pruitt, a non-union member, whose non-union status had been forced upon her during the previous months by Respondent union, a matter with which Forrest was personally acquainted." (I.R. Page 6, lines 26-29-30).
- p. That "I find that the petition constituted an act by Respondent Union and that Respondent Company did not regard it

otherwise." (I.R. Page 6, lines 30-31).

- q. That "The record also discloses that on December 22, Pruitt learned that her December dues had not been checked off. In fact, one Young of Respondent Company's payroll department showed her the November letter from Respondent Union directing the cessation of her dues checkoff." (I.R. Page 7, lines 20-24).
- r. That "It should be noted, however, this form was never delivered to Pruitt, and it is not clear from the record on which date the form was actually prepared." (I.R. Page 7, lines 26-28).
- s. That "At 7:00 A.M. on December 27, Pruitt reported for work and discovered that her time card was not in the rack. She testified uncontrovertedly and I find that Longton called her into his office and informed her that she no longer worked there and handed her a paycheck. Pruitt asked the reason for her discharge and Longton replied, well, you know, there was a petition circulated and four letters, it is not your work in any way. Pruitt asked for a reason in writing and Longton referred her to Frashour." (I.R. Page 7, lines 30-36).
- t. That "At 8 a.m., Pruitt visited Frashour in his office; no one else was present. According to Pruitt, she asked the reason for her discharge and Frashour stated "we had a petition circulated and we also have four letters... we have sixteen names on this petition." Pruitt asked to see the names and Frashour refused. She asked for a written statement of the reason for her discharge and he told her to check with him later in the day. She later testified that she had not brought up the subject of the petition and the letters but rather that Frashour, in giving a reason for the discharge, had stated "it's the confusion that we've had, and a petition and four letters that we have.... the four letters had more weight than the petition, but it was the letters ... the petition and the four letters." (I.R. Page 7, lines 38-48).
- u. That "According to Pruitt, Frashour told her that he could not supply a written statement. She claimed that she needed it in order to seek work elsewhere and that she had never been discharged previously. Frashour replied that her work had been satisfactory but that "We have a petition and four letters. Ordinarily, a union affair, we don't get into it, but we have four letters ... These four letters come from four employees saying that they are going to quit if we don't get rid of you We have to get rid of you." Frashour promised to check with Forrest and ascertain what written document might be furnished Pruitt." (I.R. Page 7, lines 52-60)

- v. That "Moreover the testimony of Forrest, the superior of Cook and Frashour, as previously noted, demonstrates that Forrest himself knew that the return address on the letter in which the petition had been enclosed was that of Respondent Union." (I.R. Page 8, lines 36-39).
- w. That "As noted, the testimony of Pruitt attributing the statement to Longton, on the morning of December 23 that a petition had been circulated and that four letters had been received is undenied." (I.R. Page 8, lines 49-51).
- x. That "Accordingly, I find that Pruitt was informed by Frashour on December 23 that the petition as well as the four letters were involved in the decision to terminate her." (I.R. Page 8, lines 57-59).

SPECIFICATION OF ERROR, NUMBER FIVE

The National Labor Relations Board erred and prejudiced rights of the Petitioner in adopting and approving the following portions of the Trial Examiner's Analysis and Conclusions as set forth in his Intermediate Report because the same are not supported by substantial evidence on the record considered as a whole and each of said Analysis and Conclusions is contrary to law and the whole of the evidence:

- a. That "On November 25, Respondent Union wrote to Assistant Manager Frashour and asked that Pruitt be discharged under the union shop clause of the contract because of nonmembership in Respondent Union. President Forrest learned of the matter and advised Pruitt during November that she would have no employment problems if her dues were paid. Pruitt told Forrest that the Union had refused to accept her dues." (I.R. Page 9, lines 21-26).
- b. That "The matter remained quiescent for some weeks until December 23 when both the petition and the four letters were received by Frashour. As found, a motion to prepare the petition had been made by a union trustee at a regular meeting of Respondent Union earlier that month; Secretary Wilson had prepared it; Vice President Pryce had circulated it; and Wilson had mailed it in. Indeed, Forrest recognized the return address and name as that of Respondent Union." (I.R. Page 9, lines 28-34).

- c. That "Moreover, the petition made a clear reference to the November communication from Respondent Union in which Respondent Company was asked to terminate Pruitt under the union shop clause. It put Respondent Company on notice that the 16 signers, including Vice President Pryce, were requesting the discharge of Pruitt because of her non-membership in Respondent Union. More particularly, Forrest personally knew that her nonunion status was based upon her ouster during November by Respondent Union which had cancelled her dues deduction, a decision which was honored and carried out by Respondent Company, for the dues checkoff was not made from Pruitt's December check which she received on December 22." (I.R. Page 9, lines 36-45).
- d. That "From the foregoing, it is readily clear that Pruitt was ousted from union membership for a reason other than nonpayment of dues and initiation fees. The cancellation of her dues deduction by Respondent Union can only be equated with a refusal to accept her dues. And, it is readily clear that in November Respondent Union attempted to cause her discharge when it submitted the November 25 letter requesting her discharge. It is also apparent that the petition, under union sponsorship, was also an attempt to cause her immediate discharge. That it related back to the previous month's demand is disclosed by its protest against a nonunion employee, Pruitt, working in a union shop and then asking that she be "immediately" removed from the employ of Respondent Company." (I.R. Page 9, lines 47-57.)
- e. That "Initially, it is clear that neither Forrest nor Frashour took the trouble to investigate the circumstances of the writing of these letters or to talk with the writers or for that matter with Pruitt." (I.R. Page 10, lines 3-6).
- f. That "Neither Pryce nor Crites requested the ouster of Pruitt, but rather sought an alleviation of the situation, and, in fact, Crites admitted herein that she had little or no difficulty with Pruitt. Candelaria did give reasons for being unable to work with Pruitt and said, 'If she continues to work in my department, I find it necessary to resign, as I have tried to do before.'" As noted, there is no evidence of the reason or circumstances surrounding the earlier occasion." (I.R. Page 10, lines 15-21).
- g. That "This glosses over the fact that the petition was received from Respondent Union, the labor organization with which Respondent Company was under contract; that it was signed by 16 employees, in essence the entire unit; and that included among the signatures were the four letter writers

one of whom was the vice president of Respondent Union. In sum, Respondent Company had been under pressure from Respondent Union for over one month to fire Pruitt; was entirely familiar with what amounted to Respondent Union's refusal to accept her dues; and had received a petition bearing Respondent Union's return address and signed by 16 employees; which on its face related back to Pruitt's ouster from union membership. Yet, it would have one believe that it deemed all this to be of no moment in deciding to terminate Pruitt and that it then proceeded to rely upon the four letters alone. This contention I am unable to credit." (I.R. Page 10, lines 33-45).

- h. That "It is apparent from the record that Pruitt did have a sharp tongue which had led to difficulties with co-workers, but that she was regarded as an exemplary employee and further that Respondent did not take up with her the question of the relationship with the other employees." (I.R. Page 10, lines 55-58).
- i. That "Yet Respondent does not challenge Pruitt's competence as a tile grader. And it is interesting to note that after Pruitt's discharge, Pryce was assigned to other duties by Frashour and Longton because they, according to Pryce, concluded that the tile he cut was not satisfactory. I find, therefore, that Respondent Company could have readily ascertained that there was no true substance to Pryce's letter which was received on December 23 along with the other three. Moreover in view of the general pattern of all four, it hardly needs stating that a reasonable man, against the background of Respondent Union attempting to oust Pruitt from the plant, would be put on notice that something other than pure employee friction was involved." (I.R. Page 11, lines 14-24).
- j. That "The testimony of Hanley impressed me as truthful, consistent with the entire pattern of events, including the reference earlier that morning to the petition by Longton in his conversation with Pruitt, and is therefore credited. In any event, however, it is my belief that the conclusions below, independently thereof, are amply supported by the other factors heretofore set forth." (I.R. Page 11, lines 46-51).
- k. That "That Respondent Union under its union shop attempted to cause the discharge of Pruitt for a reason other than the nonpayment of dues and initiation fees has already been demonstrated. I am persuaded by the foregoing factors that Respondent Company was motivated, in part at least, by the petition received on December 23 which I find was a

union rather than a private demand for the discharge and that Respondent Company reasonably so regarded it." (I.R. Page 11, lines 53-59).

1. That "But, on this record, another factor played a part, namely the persistent efforts of Respondent Company to oust Pruitt from the employ of Respondent Company during November and December, culminating with the union sponsored petition which related back to Pruitt's ouster from union membership and the honoring by Respondent Company of the Union's instruction to cancel Pruitt's dues checkoff." (I.R. Page 12, lines 3-8).
- m. That "I find that Respondent Union has engaged in unfair labor practices within the meaning of Section 8 (b) (2) of the Act by attempting to cause and by causing Respondent Company to discriminate against Sally Pruitt whose membership in Respondent Union was terminated for reasons other than failure to tender periodic dues and initiation fees, and that by such conduct Respondent Union has restrained and coerced employees in the exercise of the rights guaranteed by Section 7 of the Act within the meaning of Section 8 (b) (1) (A) of the Act." (I.R. Page 12, lines 23-30).
- n. That "I find that Respondent Company has engaged in unfair labor practices within the meaning of Section 8 (a) (3) of the Act by terminating the employment of Sally Pruitt because of nonmembership in Respondent Union upon demand of the latter, although it knew that membership was denied her for reasons other than failure to tender periodic dues and initiation fees, thereby discriminating with respect to the hire and tenure of her employment in order to encourage membership in a labor organization. I further find that by the foregoing Respondent has interfered with, restrained and coerced employees in the exercise of rights guaranteed by Section 7 of the Act, thereby engaging in unfair labor practices within the meaning of Section 8 (a) (1) thereof." (I.R. Page 12, lines 32-42).
- o. That "The activities of Respondents, set forth in Section (n) above, occurring in connection with the operations of Respondent Company set forth in Section I above, have a close, intimate, and substantial relation to trade, traffic and commerce among the several States and tend to lead to labor disputes burdening and obstructing commerce and the free flow thereof." (I.R. Page 14, lines 30-34).

SPECIFICATION OF ERROR, NUMBER SIX

That the National Labor Relations Board erred in failing to find, in accordance with all of the substantial evidence on the

record, that Sally Pruitt's testimony is patently false and unworthy of belief, including but not limited to the following specific portions of her testimony as contained in the Transcript of Testimony, hereinafter designated as "Tr.":

- a. That, at her request, her foreman, Henry Longton, called all of the tile graders together in the lunchroom and relieved her of a "job" of instructing and assisting other graders.
- b. That she mailed a copy of General Counsel's Exhibit #9 to Respondent Union prior to attending the meeting of the Respondent Union. (Tr. Page 148, lines 1-9).
- c. That when she returned to work on December 27, 1960, she was told by her foreman, Longton, "well, you know, there was a petition circulated and four letters" That's it It's not your work in any way." (Tr. Page 52, lines 1-13).
- d. That she was told by Mr. Frashour in response to her request for a reason for termination "well, you know Sally, we had a petition circulated and we also have four letters ... And, we have 16 names on the petition." (Tr. Page 153, lines 2-9.)
- e. That upon the occasion of her visit to the company offices on the afternoon of December 27, 1960, she was told by Mr. Frashour, "We have a petition and four letters And ordinarily in a union affair, we don't get into it, but we have four letters And, these four letters came from four employees saying they are going to quit if we don't get rid of you." (Tr. Page 154, lines 14-25, and Page 155, line 1.)
- f. That she never had any difficulties with one Lorena (Boots) Green. (Tr. Page 156, lines 11-14, Page 169, lines 6-7).
- g. That she never had any difficulties with one Phyllis Candelaria. (Tr. Page 156, Lines 15-16).
- h. That she never had any difficulties with one Mrs. Anita Ashley. (Tr. Page 156, lines 17-18).
- i. That she never had any difficulties with one Mrs. Sylvia Crites. (Tr. Page 156, lines 19-20).

- j. That she had never talked to Mr. A. C. Roll. (Tr. Page 167, lines 22-23).
- k. That she had never had any trouble with Robert Pryce. (Tr. Page 169, lines 4-5).
- l. That she barely knew one Ben Kempke. (Tr. Page 172, lines 16-25).
- m. That she never had trouble with anybody. (Tr. Page 162, lines 22-23).
- n. That she had no conversation with Mrs. Ashley not more than a day or two before she was given a warning slip introduced into evidence as Respondent Company's Exhibit #11. (Tr. Page 317, lines 10-25; Page 318, lines 1-11).
- o. That she had never threatened to beat anyone up. (Tr. Page 319, lines 1-3).
- p. That she had never told any of her fellow employees to slow down in their work, or that they were grading too fast. (Tr. Page 319, lines 4-9).
- q. That she had never asked Mr. Frashour on the day of her discharge about the petition or letters. (Tr. Page 319, lines 10-23).
- r. That Mr. Frashour had told her that he would only give a recommendation over the phone but could not give her a recommendation in writing. (Tr. Page 155, lines 15-20).

SPECIFICATION OF ERROR, NUMBER SEVEN

That the National Labor Relations Board erred in failing to find, in accordance with all of the substantial evidence on the record, as follows:

- a. That Bernard Meskill testified falsely when he testified that there was a mention made and voted upon at the December meeting of the Respondent Union that a petition be circulated to get Sally Pruitt dismissed. (Tr. Page 191, line 25; Page 192, lines 1-20)
- b. That Alma Handley was prejudiced and her testimony was of doubtful value because she was admittedly a friend and neighbor of Pruitt. (Tr. Handley, page 180, et seq.)

- c. That if Mrs. Woods, a friend of Pruitt, who accompanied her upon her visit to the company office after her discharge, had appeared and testified, her testimony would have been adverse and contrary to Pruitt's.

SUMMARY OF ARGUMENT

1. The real, and only, issue in this case is the Petitioner's motive in discharging Pruitt, and there is no substantial evidence, viewing the record as a whole, upon which it can be concluded that Petitioner discharged Mrs. Pruitt because she was not a member of the Respondent Union. To find that she was discharged because of her nonmembership in the Respondent Union, it is necessary to base an inference upon an inference, and this is not permissible even with administrative agencies.

2. Immaterial and irrelevant evidence, when properly objected to by a party, should not be admitted in evidence.

3. Evidence of the discharged employee's statements about and opinions of her fellow employees is relevant and material evidence when Petitioner is contending that she was discharged because of her conduct toward her fellow employees and her effect upon them and their work, and the refusal to consider material and relevant evidence is a denial of due process and this is true of impeaching evidence as well.

4. All of the items specified as errors in the Findings of Fact under Specification of Error, Number Four are errors which are demonstrably false and together they constitute almost totally erroneous findings.

5. All of the items specified under Assignment of Error Number Five are substantial errors in conclusions and constitute more an argumentative and partisan justification of the findings than a dispassionate and lucid determination of the pertinent facts.

6. All of the specifications of error set forth under Specifications of Error, Number Six, deal with the false testimony of Mrs. Pruitt, and, when considered collectively and cumulatively, demonstrate beyond any reasonable doubt the falsity of Mrs. Pruitt's testimony and her entire position.

7. The specifications of error contained in Specification of Error, Number Seven, are all errors found in the consideration by the Trial Examiner and the National Labor Relations Board of the testimony or lack of testimony by individual witnesses.

ARGUMENT

SPECIFICATION OF ERROR, NUMBER ONE

It is a general rule that where the wrongful discharge of an employee under the provisions of Section 8(a)(3) of the National Labor Relations Act is an issue, the critical question is the employer's "true motive."

N.L.R.B. vs. Ronney & Sons Furniture Mfg. Co., (CA 9, 1953), 206 F. (2d) 730;

Radio Officers' Union of Commercial Telegraphers, A.F.L. 6 vs. N.L.R.B., (1954), 74 S. Ct. 323.

N.L.R.B. vs. Longview Furniture Co., (CA 4, 1953), 206 F. (2d) 274.

Pittsburgh-Des Moines Steel Company vs. N.L.R.B., (CA 9, 1960), 284 F. (2d) 74.

The National Labor Relations Board may draw reasonable inferences from the facts in evidence but it cannot create inferences where there are no facts nor can it create an inference upon an inference.

N.L.R.B. vs. Kaiser Aluminum & Chemical Corp., (CA 9, 1954), 217 F. (2d) 366.

N.L.R.B. vs. Norfolk Shipbuilding & Drydock Corporation, (CCA4, 1940), 109 F. (2d) 128.

N.L.R.B. vs. Pick Mfg. Co., (CCA7, 1943), 135 F. (2d) 329.

The Courts of Appeal in reviewing orders of the National Labor Relations Board are restricted to determining whether or not the findings of fact of the Board are based upon substantial evidence viewing the record as a whole, and if they are so based, the findings are conclusive.

29 U.S.C. Sec. 160 (e) and Sec. 160 (f).

N.L.R.B. vs. Walton Manufacturing Company, (1962), 82 S.Ct. 853.

N.L.R.B. vs. Pittsburgh S. S. Co., (1951), 340 U.S. 498, 71 S.Ct. 453, 95 L.Ed. 479.

Universal Camera Corp. vs. N.L.R.B., (1951), 340 U.S. 474, 71 S.Ct. 456, 95 L.Ed. 456.

The reviewing court may set aside a decision of the National Labor Relations Board when it cannot conscientiously find that the evidence supporting the decision is substantial, when viewed in the light that the record in its entirety furnished, including the body of evidence opposed to the position of the Board.

N.L.R.B. vs. Walton Manufacturing Company, (1962), 82 S.Ct. 853.

Universal Camera Corp. vs. N.L.R.B., (1951), 340 U.S. 474, 71 S.Ct. 456, 95 L.Ed. 456.

"Substantial Evidence", within the rule that findings of the National Labor Relations Board must be supported by substantial evidence to be conclusive, is more than a scintilla, and must do more than create a suspicion of the existence of the fact to be established and means such relevant evidence as a reasonable mind might accept as adequate to support a conclusion, and it must be enough to justify, if the trial were by jury, a refusal to direct a verdict when the conclusion sought to be drawn from it is one of fact for the jury.

N.L.R.B. vs. Columbian Enameling & Stamping Co., (1939) 59 S.Ct. 501.

Jefferson Electric Co. vs. N.L.R.B. (CCA7, 1939), 102 F. (2d) 949.

American Smelting & Refining Co. vs. N.L.R.B., (CCA8, 1942), 126 F. (2d) 680.

The reviewing courts, in matters involving the review of National Labor Relations Board decisions and orders, ordinarily do not pass upon the credibility of the witnesses, but where material uncontradicted evidence has been ignored, or where evidence has been disregarded or eliminated by the casual expedient of discrediting an employer's witnesses, or where the testimony is incredible, the Trial Examiner's report and the Board's findings will not be accorded the presumption of correctness usually attributed to the trier of fact.

N.L.R.B. vs. Walton Manufacturing Company, (1962), 82 S.Ct. 853.

N.L.R.B. vs. F. W. Woolworth Co., (CA6, 1954), 214 F.(2d) 78.

N.L.R.B. vs. Miami Coca-Cola Bottling Company, (CA5, 1955), 222 F.(2d) 341.

N.L.R.B. vs. United Brass Works, Inc., (CA4, 1961), 287 F. (2d) 689.

Nothing in the National Labor Relations Act interferes with the normal exercise of an employer's right to select its employees or discharge them except the employer cannot have as his "true motive" the encouragement or discouragement of a union.

N.L.R.B. vs. Fansteel Metallurgical Corporation, (1939), 306 U.S. 240, 59 S.Ct. 490.

The sole issue in this case is framed by Paragraphs VIII and IX, page 3, of the General Counsel's Complaint and the Petitioner's denial thereof. Those paragraphs read as follows:

VIII

On or about December 27, 1960, Pacific did discharge Sally Pruitt, employee of said Pacific, employed at the Dillard Plant.

IX

Pacific did discharge and failed and refused and continues to fail and refuse to reinstate the employee referred to above in paragraph VIII because said employee was not a member of Independent.

Based upon the pleadings, as set forth above, the critical question and issue is whether the "true motive" of Petitioner in discharging Pruitt was "because said employee was not a member of Independent."

N.L.R.B. vs. Ronney & Sons Furniture Mfg. Co., (CA 9, 1953), 206 F. (2d) 730.

If every bit of the evidence in this case is viewed in the light most favorable to the Board, there is still no substantial evidence upon which it could find that Mrs. Pruitt was discharged by Petitioner because she was not a member of Respondent Union. A fair and impartial reading of the Transcript of testimony and of the exhibits will reveal

a complete lack of substantial evidence tending to prove directly or by direct inference that Petitioner's motive was to discharge Mrs. Pruitt because she was not a member of Respondent Union.

It has been the position of the Petitioner from the very beginning of this matter that it would not discharge Mrs. Pruitt because she was not a member of Respondent Union, and the testimony of all of the responsible officers and supervisors subsequent to the discharge is directly to the effect that the discharge was because of Mrs. Pruitt's inability to get along with her fellow employees.

A detailed analysis of the Decision and Order of the National Labor Relations Board is contained in the Arguments below relating to Specifications of Error, Numbers Five, Six and Seven, and the court's attention is respectfully called to those arguments to avoid duplicating them at this point.

The Petitioner contends, and has always contended and its officers have so testified, that the culminating factors which activated its decision to discharge Pruitt were a petition to it signed by 16 employees, (General Counsel's Exhibit 5), and letters from four employees, (Petitioner's Exhibits 1A, 2A, 3A, and 4A.), and that these documents were preceded by a history of friction and discord in the plant, all caused by Pruitt.

The Trial Examiner and the National Labor Relations Board have taken and continue to take the position that the petition and the letters from the four employees constituted acts of the Respondent Union and that the Petitioner so regarded them and took action based

upon them.

There is no direct evidence that the petition or the letters were the act of the Respondent Union so the Board must infer that from other evidence, and in the fact of the testimony of every employee concerned, and that inference only takes the Board part way. Before it can take the next step and find that Petitioner discharged Pruitt because she was not a member of Respondent Union, the Board must infer, in the absence of direct evidence, that Petitioner knew the letters and petition were the act of the Respondent Union and acted upon them as such. This the Board cannot do. This court has held, in N.L.R.B. vs. Kaiser Aluminum & Chemical Corp., (CA9, 1954), 217 F. (2d) 366, that the Board may draw reasonable inferences from evidence but it cannot create inferences where there is no substantial evidence upon which they may be based, and an inference is not substantial evidence so an inference may not be erected upon an inference.

SPECIFICATION OF ERROR, NUMBER TWO

At the hearing, counsel for the Board endeavored to elicit testimony dealing with a grievance matter involving Mrs. Pruitt's brother-in-law, one Ray Pruitt. Petitioner objected upon the ground that the whole subject was irrelevant and immaterial. (Tr. page 81, lines 4-25; page 82; page 83, lines 1-10.) It is still the contention of Petitioner that such testimony was immaterial and irrelevant and that its introduction was prejudicial.

SPECIFICATION OF ERROR, NUMBER THREE

Petitioner offered testimony of statements and opinions of Pruitt about her fellow employees and the Examiner sustained the objection of counsel for the Board that it was immaterial and irrelevant. (Tr. page 196, lines 10-25; pages 197, 198, 199; page 200, lines 1-9.)

Petitioner is entitled to the testimony as to Mrs. Pruitt's statements and opinions concerning her fellow workers for two reasons: (1) In support of its contention that it discharged her because of the trouble she was causing among her co-workers; and (2) To impeach her testimony that she had no trouble with and liked and was liked by all of her fellow employees.

Refusal by the Board to receive and consider competent and material evidence offered by a party amounts to a denial of due process. (Donnelly Garment Co., vs. N.L.R.B., 123 F. 2d 215. Petitioner can conceive of no evidence more directly bearing upon Mrs. Pruitt's relationship with her fellow employees than testimony as to what she has said to disinterested third parties about them. Certainly the evidence offered was competent and material under any reasonable view of the situation.

The Supreme Court has said that findings of the Board cannot be said to have been fairly arrived at unless material evidence which might impeach is heard and weighed. (N.L.R.B. vs. Michigan Electric Co., 318 U.S. 9.

Mrs. Pruitt's testimony is replete with statements that she never had any trouble with her fellow employees, as a group, or individually. (Tr. Page 162, lines 22-23; page 156, lines 11-14; page 169, lines 6-7; page 156, lines 15-16; page 156, lines 17-20; page 169, lines 4-8; page 172, lines 1-3; page 319, lines 1-3.) What better way exists to reveal to the Board Mrs. Pruitt's falsity than through evidence of how she actually felt about her fellow employees? Certainly, the offered testimony should have been admitted for purposes of impeachment, if for nothing else.

The Trial Examiner himself admitted, (Tr. page 199, lines 19-20) that there was evidence given by Mrs. Pruitt that she got along well with everyone, and yet, for reasons known but to himself, he chose to sustain the Counsel's objection and the Board adopted his position.

SPECIFICATION OF ERROR, NUMBER FOUR

The following portions of this brief deal with the individual specifications contained in this general specification and bear the same letter designation as contained in the specification. Petitioner feels that it is important for the Court to consider in some detail the various errors and omissions contained in the Trial Examiner's Intermediate Report which the Board adopted as its Decision and Order.

a. At the very inception of his Intermediate Report, the Trial Examiner attempted to and apparently did create an erroneous impression in the minds of the Board by the implication of the existence of issues on which each party has an equal burden of proof and an equal oar to

pull. This is not the case. The sole issue in this matter is, as stated in the complaint in paragraph IX page 3 and denied in the Answer, whether the Petitioner discharged and refused to reinstate one Sally Pruitt because she was not a member of Respondent Union. As far as the Petitioner's counsel has been able to determine, this is the sole issue in this matter. The burden of proving the charge complained of in the Complaint is upon the general counsel and he must prove it by a preponderance of the evidence. 29 U.S.C.A. Sec. 160 (c). The statement excepted to this exception clutters up the record and is an erroneous finding inasmuch as it does not state the true issue.

b. Petitioner excepts to the portion of this particular sentence wherein the Examiner says that the Respondent Union is a bargaining representative of approximately "16 employees" in the Particle Board Division. This is not true. There are 67 employees who are members of the Respondent Union. It is apparent from a consideration of the entire record that the transcript of evidence (Tr. Page 16, lines 10-11) is in error and that President Forrest actually said "60" instead of "16". This is the only logical explanation for his reported statement. The Trial Examiner in several places in his Intermediate Report lays great stress upon the size of this Union as being a very small one with only 16 employees, whereas the Respondent Union actually is almost one-half as big as the AFL-CIO Local which has jurisdiction of the plywood operation. From the information contained in the transcript, the Court can satisfy itself that there were substantially more than 16 members of the union. In the first place, all of the signers of the petition, of whom there are 16, were members of the union. (Tr. Page 112, lines

9-12). None of the workers in the Particle Board Division outside of the Par-TILE Division signed the petition. (Tr. Page 110, lines 10-25, Page 11, lines 1-5.) No Pacqua employees signed the petition. (Tr. Page 110, lines 14-25; Page 11, lines 1-15.) In addition to that whole part of the operation, there were numerous individuals who testified at the hearing who were members of the Respondent Union and who did not sign the petition. Anita Ashley was a member of the Respondent Union and did not sign the petition. (Tr. Page 242, lines 10-12). Alma Hanley was a member of Respondent Union and did not sign the petition. (Tr. Page 183, line 3). Lee Wilson was a member of Respondent Union and did not sign the petition. (Tr. Page 74, lines 11-14). Dora Bell was a member of the Respondent Union and did not sign the petition. (Tr. Page 171, lines 4-5). Bernard Meskill was a member of Respondent Union and did not sign the petition. (Tr. Page 190, lines 4-6).

c. Petitioner excepts to the Examiner adopting Pruitt's version of the discussion between herself and Forrest. There is absolutely no basis on the record for taking her version of what transpired over that of Forrest. In fact, there is every reason not to accept Pruitt's version. Forrest testified that when Pruitt came to see him, she said that she had tendered her dues but the Respondent Union had not accepted them and he, Forrest, told her that as far as the Company was concerned, it would take no action on that item. (Tr. Page 40, lines 18-22, Page 41, lines 1-17). In one place in the record (Tr. Page 170, lines 5-8), Pruitt herself testified that Forrest said in this meeting "Well, you just go back and watch your p's and q's and keep your Union

dues paid and there will be nothing come through this office." It should be noted that this is a far different thing than as set forth and found by the Trial Examiner. "Watch your p's and q's changes the entire meaning of the statement to mean that she must do something more than merely keep her dues paid.

d. Petitioner excepts to the Trial Examiner's bald statement that "Forrest admitted...." and resents the implication that Forrest's testimony was wrung from him in some manner. The information in fact was developed during a routine examination and was freely given as appears from the transcript page 29, lines 9-23; page 40, lines 5-25; page 41, lines 1-17. It should be noted also that Mr. Forrest was the first witness who testified, and he testified affirmatively as to his meeting with Pruitt and the conversation that there took place.

e. Petitioner excepts to the finding given because it is a distortion of the testimony by Mr. Frashour. The significant and fair thing to be gained from Mr. Frashour's testimony in this regard is that when they contacted their local counsel and a representative of their employer's association, they were told to do nothing. The important thing is not the witness' recollection of the reasons given, if they were given, by counsel, but their advice, which as stated in the testimony was to do nothing. (Tr. Page 278, lines 15-25; page 271, lines 1-11; page 287, lines 20-25; page 288, lines 1-8).

f. The exception taken by the Petitioner here is the same as that contained and for the same reasons set forth in d above.

g. Petitioner excepts to the distortion of the evidence contained in the Examiner's statement. The Examiner attempts to imply that the

four letters, Respondent Company's Exhibit 1A - 4A and the petition, General Counsel's Exhibit 5, came to the attention of the Company simultaneously. This is not true. Henry Longton's testimony (Tr. Page 297, lines 21-25; page 298, lines 1-20) indicates that he received one letter on December 21, 1960, three other letters on December 22, 1960, and that he turned them in to Mr. Frashour on December 23, 1960. Longton never saw the petition until after the decision had been made to discharge Mrs. Pruitt or until after she had left the employment of the Company. (Tr. Page 302, lines 5-25; page 303, lines 1-10).

h. Here again, as in a. above, the Examiner is by implication endeavoring to equate subsidiary conflicts in the evidence with the issue in the case. As stated in 1 (a) above, the issue in this matter is whether or not the Petitioner discharged Sally Pruitt because she was not a member of Respondent Union.

i. Petitioner has no exception to the actual finding that the meeting discussed in the exception was held on December 12, however, Petitioner objects to the implication given by Examiner that Pruitt is worthy of belief. There is sufficient other evidence in the record as indicated by the Examiner that the meeting in question probably took place prior to December 13, 1960.

j. All of the evidence in the record pertaining to the preparation, circulation and signing of the petition is contained in the following places in the transcript: Wilson, Page 103, lines 9-25; page 104, lines 1-20; Pryce, Page 124, lines 6-25; page 125, lines 1-25; Page 126, lines 1-5; page 132, lines 15-20; Hanley, Page 185, lines

11-25; page 186, lines 1-17; page 188, lines 6-11; Meskill, Page 94, lines 6-9; Mrs. Green, Page 203, lines 7-25; page 204, lines 1-5; page 216, lines 4-25; page 217, lines 1-25; Mrs. Candelaria, Page 229, lines 13-25; page 230, lines 1-8.

The Examiner implies that Mr. Pryce in the capacity as Vice-President of the Respondent Union personally took the petition in question, signed it first himself and then took it around to all of the employees in the union person by person, and by virtue of his position as a Vice-President forced all of them to sign it. A reading of the portions of the transcript set forth above show that the Examiner's conception is not correct. Circulation, if that is what it can be called, of the petition was very informal, and completely without coercion or solicitation. There is absolutely no evidence in the record of any kind that substantially all or even a majority of the employees in the unit signed the petition and the only evidence is that there were 16 signers. A search of the record from page 1 to page 324 will reveal no basis for a statement that substantially all of the employees in the unit signed the petition.

k. The Examiner's statement that the testimony of Pryce and Wilson that they were acting as individuals was only their conclusion, is an erroneous assumption of the facts. What more direct evidence can there be of the capacities in which a person is acting than his or her own direct testimony? The testimony of Pryce and Wilson is the only direct evidence upon the capacity in which they were acting with regard to the

petition. Any other evidence is purely circumstantial. The testimony of Pryce and Wilson that they were acting in their individual capacities is supported by other evidence as well.

The minutes of the Respondent Union's December meeting (General Counsel's Exhibit #11, and reproduced in part on page 5 of the Intermediate Report, lines 40-54, states the following with regard to the petition: (Lines 51-54) "Secretary Lee Wilson suggested that it be handled as a personal problem effective to Sierra only since Pacqua was not affected. The Secretary was asked if he could draw up the petition for the Sierra group." This is a far different thing than the Examiner says. It is apparent from the minutes that Mr. Wilson was to prepare a petition for a group of employees who are acting on a "personal problem". The Examiner's construction of the minutes appears to be an attempt to rationalize a decision already reached in the mind of the Examiner.

A careful, impartial, and unbiased reading of the petition reveals that the signers of the petition who are employees of Sierra Lumber Company and also union members of the Respondent Union in good standing are protesting against a nonunion employee working in a union shop and taking precedence over union members. The gravamen of the petition is that portion where the employees request that the company act immediately to remove the designated employee from employment, not upon the grounds that she is a nonunion employee but upon the grounds

that she is a troublemaker and has willingly and indiscreetly done harm to her fellow employees in hampering their work whenever and wherever she could and by keeping a disturbance among the employees. There is no request in the entire petition for the Petitioner to discharge the employee because she was not a member of the Respondent Union.

The fact that Robert Pryce was a Vice-President of the Respondent Union apparently and naturally was of little or no importance to anyone involved until the Examiner chose to blow it up out of all proportion to its importance. If the petition were in fact a union act and was circulated by the union officials as such, it would have been relatively simple to designate it in that manner and to have the President and Secretary of the Union execute it in their official capacities. Obviously the individual to whom the employees would turn for the preparation of any such document would be Secretary of their union. There is ample evidence to indicate that Mrs. Pruitt's conduct had created hard feelings between herself and Mr. Pryce and that Mr. Pryce was motivated by his personal feelings in his belief as to her conduct instead of any motivations which might have arisen by virtue of his position in the union. (Tr. Page 126, lines 14-25; page 127, lines 1-12; page 132, lines 21-24; page 133, lines 1-10.)

1. Again the Examiner has twisted Mr. Forrests' testimony out of all resemblance to its true meaning and apparently the Examiner attaches great importance to this item because he repeats it several times. Mr. Forrests' testimony, (Tr. Page 26, lines 24-25; page 27,

lines 1-8) shows that the general counsel introduced an exhibit which was the envelope containing the petition and that on the envelope were the letters "I.P.B.E.I. CV Route, Box 375". The counsel then asked Mr. Forrest if he knew what those initials stood for and he replied that he could guess what they stood for. In answer to the next question as to what his guess would be, he answered that his guess would be that "it must be Independent Particle Board Employees, Inc. or something." From this brief statement, the Examiner contends that Mr. Forrest examined the envelope in which the petition was contained at the time of its arrival, that he immediately recognized the return address on the envelope and knew that it was that of the Respondent Union, and that from that he inferred that the petition contained in that envelope was a petition from the Respondent Union itself. This is ridiculous on its face, and contrary to any reasonable interpretation of the testimony.

m. The matter excepted to under this exception is an instance of the Examiner's ability in picking and selecting certain portions of testimony or evidence and believing it even when it is inherently unbelievable and incredible and excluding from his consideration contradictory and more believable evidence. The minutes of the December meeting of Respondent Union (General Counsel's Exhibit #11) indicate that no such motion to prepare a petition was ever made let alone by union trustee Boucock. Counsel's witness, Alma Hanley, said that she was at the December union meeting (Tr. Page 183, lines 17-25; page 184, lines 1-4, lines 18-25; page 185, lines 1-10; page 188, lines 1-25) and

remembered no such motion nor any vote upon such a motion. Mrs. Hanley is the same witness the Examiner says is truthful and whose testimony is consistent with entire pattern of events. (I.R. Page 11, lines 46-49.) It appears odd to Petitioner that this consistent, truthful witness is believed in other respects but when she is supported by minutes of the meeting and the testimony of several other witnesses, her testimony is not believed while that of Mr. Meskill, who was the sole witness to testify as to the making and voting upon such a motion is believed. Petitioner submits that all of the weight of the evidence is contrary to Meskill's testimony and that the only substantial evidence is that there was no such motion and no such vote.

Further, in this regard, Petitioner wishes to call to the attention of the Court a fact which the Examiner has insisted on overlooking. That is the fact that the Respondent Union in this case is a corporation and not, as is usually the case, an association. Evidence concerning its proceedings would appear to be governed by the same rules of evidence as govern the proceedings of other corporations. If that is true, and Petitioner sees no reason to believe otherwise, the best evidence as to what went on at a meeting of the members of the corporation is the minutes of the corporation for that particular meeting. In fact, the law is that the minutes of the meeting are the only evidence admissible to prove the actions at the meeting. (Denver & R.G.R. Co. vs. Arizona and C.R. Co., 233 U.S. 601. This is obviously based upon the greater reliability of the minutes. It is submitted that the minutes of the December meeting of Respondent Union are of

greater reliability than the testimony of a single witness (Meskill) whose recollection is entirely different from that of any other person in attendance who testified at the hearing. In other portions of his Report, the Trial Examiner chooses to rely upon the same minutes and the minutes of other meetings. Petitioner is unable to understand the distinction which the Examiner draws between the minutes of the various meetings and his varying reliance thereon.

n. The Examiner's statement that the content of the petition clearly makes reference to the prior union action is a blatant misstatement of the content of the petition, (General Counsel's Exhibit #5). Petitioner has read and reread and read again the contents of the petition and can find no clear reference to any prior union action. Petitioner submits that this is a complete distortion of the meaning of the petition.

o. The Examiner's finding is at complete variance with the facts as revealed by the evidence. There is no evidence at all that any of the people in positions of responsibility with the Petitioner knew that Pryce was the Vice-President or in fact that he was any official of the Respondent Union. The only thing that can be found from the evidence as far as this item is concerned is that Petitioner knew from the petition that those employees signing that petition requested the company to act immediately to remove the employee on the grounds that she was a troublemaker and had willingly and indiscreetly done harm to her fellow employees in hampering their work whenever and wherever she could and by keeping a disturbance among them. Responsible officials of

Petitioner knew that the petition referred to Pruitt and have never claimed otherwise.

p. This finding is wholly without basis in any substantial evidence, in fact, all of the evidence is that the Petitioner regarded the petition as the act of the individual employees who signed the same. This particular tortuous reasoning of the Examiner involves the construction of one inference and the piling of a further inference upon that inference. From certain facts in evidence, the Examiner chooses to raise a questionable inference that the petition was an act of the Respondent Union. From that inference and without evidence the Examiner attempts to create a further inference that the Petitioner knew that the petition was an act of the Respondent Union. This is improper and clearly erroneous.

q. Petitioner excepts to the Trial Examiner accepting Mrs. Pruitt's word on this matter when she testified (Tr. Page 149, lines 14-19) that she had her receipt. The receipt itself, properly signed by Petitioner would have been the best evidence of this matter and was not offered, but the Examiner is again believing Mrs. Pruitt's unsupported testimony.

r. The matter here excepted to is a complete misstatement of the record, which is clear, and is a gratuitous insult to Mr. Frashour. (Tr. Page 274, lines 4-15). Mr. Frashour testified that Petitioner's Exhibit #6, the termination slip, was made out by Mr. Longton and countersigned by Mr. Frashour terminating Sally Pruitt on December 27, 1960, for incapability. The Examiner asked Mr. Frashour if

December 27, 1960, was the date the slip was actually made out and Mr. Frashour replied "that is the date the termination was made out, yes." It appears to Petitioner that nothing could be clearer than that the termination slip was made out December 27, 1960.

s. The Trial Examiner is correct when he states that Mrs. Pruitt's testimony with regard to her conference with Longton after her discharge is uncontroverted if he means that Longton himself was not asked concerning that matter. A search of the record will reveal that Counsel for Petitioner failed to ask Mr. Longton concerning that conference. However, there is ample evidence to cast doubt upon Pruitt's statement aside from her general untruthfulness. Longton and all of the other girls on the shift with the exclusion of Mrs. Pruitt's friend and neighbor, Hanley, recalled that at the meeting on the same day of Mrs. Pruitt's discharge, they were told by Mr. Longton that she was discharged because of the fact she could not get along with the other employees and none of them could remember any discussion at that time of any petition.

Mr. Longton likewise testified that at this same meeting he advised the other employees that Mrs. Pruitt had been discharged because she could not get along with the other employees, and nothing was said about a petition. Longton further testified that he did not see the petition until Mrs. Pruitt was discharged so the probability is great that he would not have mentioned the petition to her. Once again the Examiner chooses to believe the unsupported word of Mrs. Pruitt.

t. Petitioner objects to the selection by the Examiner of Mrs. Pruitt's testimony with regard to the conference with Mr. Frashour. There is a direct conflict in the testimony between Mr. Frashour and Mrs. Pruitt as to what transpired at the meetings and Mr. Frashour's testimony is supported in its essential elements by that of Mr. Cooke. Mrs. Pruitt was thoughtful enough to bring along with her to the meeting with Mr. Frashour a witness so that any statements made might be corroborated by someone besides herself. However, it should be noted that this witness, a Mrs. Woods failed to appear at the trial and we can only assume that the testimony of Mrs. Woods would have been adverse to that of Mrs. Pruitt.

Long experience has resulted in the universally accepted doctrine that where it is within the power of one party to produce evidence, including a witness, and that evidence or witness is not introduced, there is an inference that the evidence or the witness' testimony would be unfavorable. Wetmore vs. Rymer, 169 U.S. 115;
Culbertson vs. The Southern Belle, 18 U.S. 584.

u. Here again the Examiner has accepted as the gospel truth the testimony of Pruitt even though it is opposed by two reputable representatives of the company.

v. Once more the Examiner is distorting Mr. Forrest's testimony out of all resemblance to the truth. The Court need only examine Mr. Forrest's own testimony with regard to the return address. (Tr. Page 26, lines 24-25; Page 27, lines 1-8).

w. Here again the Trial Examiner in a biased, partisan attempt states that Mrs. Pruitt's testimony was undenied. It was undenied as stated above in support of Exception s for the simple reason that Mr. Longton was not asked. It is denied by other evidence much stronger than that of Pruitt whose testimony in almost all respects is inherently unbelievable and untruthful.

x. There is no basis in truth to support this finding of the Examiner other than an unswerving partisanship in his advocacy of Mrs. Pruitt.

SPECIFICATION OF ERROR, NUMBER FIVE

The following portion of this brief is an analysis, item by item, of the erroneous and prejudicial portions of the Trial Examiner's Analysis and Conclusions as adopted by the National Labor Relations Board and specified as error in the Specifications of Error. The letters correspond to the letters of the subparagraphs in the Specifications.

a. Petitioner objects to this portion of the analysis and conclusion by the Examiner because it is a result of a misconception on the part of the Examiner as to President Forrest's statements. It is true that Mrs. Pruitt advised President Forrest that she had tendered her dues and that the Union had refused to accept her dues. President Forrest, according to his testimony in two separate places (Tr. Page 40, lines 18-22, and Page 29, lines 19-23) told Mrs. Pruitt that the Company would take no action against her based solely upon her failure to pay dues if she had tendered them. Mrs. Pruitt, in her own testimony,

(Tr. Page 170, lines 5-8), stated that Mr. Forrest had told her to keep her Union dues paid and "watch your p's and q's."

b. Petitioner objects to the statement by the Examiner that the matter remained quiescent until December 23. This is not true. Mr. Longton, Mrs. Pruitt's immediate supervisor and her foreman, received one letter from an employee on December 21, 1960, three others on December 22, 1960. He turned these letters in to Mr. Frashour, his immediate superior, on December 23, 1960, on which date Mr. Frashour also received the petition. Two weeks prior to that, Mr. Longton had conferences with both Mrs. Pruitt and Mrs. Candelaria and Mrs. Green relative to the trouble and dispute between them arising out of Mrs. Pruitt's conduct. (Tr. Page 303, lines 16-25; page 304, lines 1-10). At least twice in November or early December, Mr. Longton received reports of further trouble created by Pruitt. (Tr. Page 294, lines 3-25; page 295, lines 1-4; lines 23-25; page 296, lines 1-5).

The Examiner's repeated and erroneous statement that the motion to prepare the petition had been made by a union trustee at a regular meeting of Respondent Union has been amply covered above and its falsity laid bare. Petitioner has covered amply the true version of the preparation, circulation and mailing of the petition in the preceding portions of this brief. One more time the Examiner has attempted to mislead concerning Mr. Forrest's recognition of the Respondent Union's return address. This likewise has been covered before.

c. Every item covered by Petitioner's exception in this paragraph has been covered amply above, but it will restate some of the more obvious

matters concerning the Trial Examiner's errors in this particular. The petition makes no clear reference, and in fact makes no reference, to the November communication between Respondent Union and the Petitioner. The petition does not request the discharge of Pruitt because of her nonmembership in the Respondent Union. The Petitioner did not know Mr. Pryce's position with the Respondent Union. The contract between the Respondent Union and the Petitioner required that the dues withholding be cancelled. The only evidence that the dues were not deducted from Mrs. Pruitt's December check is her own testimony which Petitioner has demonstrated is not worthy of belief.

d. Unquestionably, Mrs. Pruitt was ousted from Union membership for a reason other than nonpayment of dues. It is likewise clear from all of the evidence that the petition was not under Union sponsorship but was an attempt by those employees working with her in the same portion of the shop to have her discharged because of the trouble that she was creating. Once again, in the last sentence of this paragraph the Trial Examiner has attempted to mislead with regard to the petition relating back to a previous demand for discharge of Mrs. Pruitt. It is beyond the comprehension of Petitioner how the Trial Examiner can persist in this and the other misconceptions repeated over and over again when they are virtually unsupported by any evidence.

e. There is ample evidence on the record that both Mr. Forrest and Mr. Frashour already knew of the trouble that Mrs. Pruitt was causing among her fellow workers and there was no further need for any investigation. Her immediate supervisor, Mr. Longton, concurred with

Mr. Frashour and Mr. Forrest in her discharge.

f. A fair and impartial reading of Petitioner's Exhibits 2a and 3a will convince any unbiased reader that the authors are asking for the discharge of Mrs. Pruitt. What other implication can be drawn from these documents? The implications made by the Trial Examiner and emphasized by underlining only emphasizes his own bias. What the Trial Examiner should have noticed, if he noticed anything at all during the hearing, was that this witness was a very withdrawn, quiet and meek person who would have no trouble with anybody. (Tr. Page 265, lines 2-8). Mr. Longton testified at some length about the troubles in his department and did testify that at least two of the girls working there mentioned they possibly would quit unless Sally stopped causing trouble. (Tr. Page 294, lines 16-18).

g. The matter excepted to under this exception is largely a resume by the Trial Examiner of his prior misconceptions, and a restatement of his erroneous conclusions which he drew therefrom. He states as a fact that the petition was received from Respondent Union when the only evidence regarding this is that it was in an envelope which Mr. Wilson had placed the initials of the Respondent Union and his own home address as the return address. The Examiner states again that the petition was signed by 16 employees which he chooses to state is in essence the entire union. This has been covered above and as shown in detail is entirely false. He emphasizes again that one of the signers was a Vice-President of the Union. Only he chooses to say "the Vice-President. The evidence indicates no pressure from Respondent Union

upon Petitioner to fire Mrs. Pruitt and a search of the entire transcript can reveal no such pressure, subsequent to the letter of November 5th which was ignored, and again he erroneously states that the petition by its own terms related back to Mrs. Pruitt's expulsion from Union membership. The Examiner persists in making misstatements of fact and from those misstatements of fact, he draws erroneous, biased and partisan conclusions.

h. Petitioner is grateful that the Examiner concedes that Mrs. Pruitt did have a sharp tongue and that she had some difficulties with her coworkers. However, Petitioner wishes to make clear that the only manner in which she was regarded as an exemplary employee was that her tile grading work was done well technically. In this connection attention is called to the incidents of Mrs. Pruitt's vulgar and profane conduct in the lunchroom and toward her fellow employees.

i. In this instance the Examiner, without any particular reason, chooses gratuitously to malign Mr. Pryce and by indirection indicate that perhaps Mrs. Pruitt was correct when she was making trouble for him over his production of tile. If the Examiner had read Mr. Pryce's testimony and transcript or had listened carefully when he testified, he would have discerned the true state of facts concerning Mr. Pryce's shift from the tile cutting machine. The transcript reveals, and Mr. Pryce testified, that he was moved from tile cutting sometime in April of 1961 and that he was moved because his superiors believed that he was not producing good, perfect tile on the new tile machine which he only operated for a short time. He was not moved from his old machine. (Tr. Page 128, lines 4-25). His finding as to what Petitioner

could have ascertained as to Pryce's letter is completely erroneous and the Examiner's statement of what a reasonable man would have notice of is based upon the Examiner's own biased, partisan and unjudicial reasoning.

j. This is an example of the Examiner choosing to believe Mrs. Hanley in one respect when it sustains the position he has previously taken and disregards her testimony when it is in opposition to that position. As stated above, Hanley is the only witness that testified as to any reference by Mr. Longton to any petition. Her testimony is opposed by the testimony of the three other girls present at that meeting and by the testimony of Mr. Longton himself as to what he said at the meeting. (Tr. Mrs. Green, Page 213, lines 21-25, page 214, lines 1-14; Mrs. Ashley, Page 248, lines 10-20, Page 250, lines 13-25; Mrs. Crites, Page 259, lines 14-18; Page 260, lines 5-12; Mr. Longton, Page 301, lines 13-25, Page 302, line 1.) And the Examiner's statement that his conclusions are amply supported by other factors is patently wrong.

k. The most that can be said for the Trial Examiner's conclusion in the first sentence excepted to in this exception is that the inference can be drawn from the evidence that the Respondent Union in its letter of November 5th did attempt to cause the discharge of Mrs. Pruitt because of her expulsion from the Respondent Union. However, evidence further indicates that this was completely ignored by Petitioner and that thereafter the Respondent Union took no further action in this regard. Petitioner does not contend and could not contend that the petition received from 16 of its employees played no part in the decision to

discharge Mrs. Pruitt. Obviously it did, although, as all of Petitioner's officials testified, it played a very, very minor part. The statement by the Examiner that it was a Respondent Union demand and that Petitioner so regarded it is absolutely without basis in fact.

l. This conclusion excepted to is a rehash of the same old misconceptions, misstatements and erroneous reasoning on the part of the Trial Examiner, and has been amply covered above.

m. It might be that it might be considered from the evidence that Respondent Union did attempt to cause the discharge of Mrs. Pruitt in its letter of November 5 to Petitioner, but there is no evidence that the letter caused the discharge or that it played any part therein, in fact, the evidence is uncontrovertedly to the effect that the November 5th letter was ignored.

n. Every finding in this paragraph is erroneous and clearly against any reasonable construction of the facts and is unsupported by any substantial evidence.

o. The Petitioner realizes that this is in effect only a formal finding but Petitioner excepts to this finding as well.

SPECIFICATION OF ERROR, NUMBER SIX

This portion of the brief deals almost entirely with the credibility of Mrs. Pruitt, and the subparagraphs below are lettered in accordance with the corresponding subparagraphs in the Specifications of Error.

Petitioner acknowledges that it is the general rule that reviewing courts, in matters of this kind, do not pass upon the credibility of

the witnesses, but Petitioner believes that Mrs. Pruitt's testimony is so incredible as to be beyond belief in many respects and that her whole testimony is not worthy of belief and should be viewed with suspicion.

N.L.R.B. vs. Walton Manufacturing Company, (1962, 82 S.Ct. 853.

N.L.R.B. vs. F. W. Woolworth Co., (CA 6, 1954), 214 F. (2d) 78.

N.L.R.B. vs. Miami Coca-Cola Bottling Company, (CA 5, 1955), 222 F. (2d) 341.

N.L.R.B. vs. United Brass Works, Inc., (CA 4, 1961), 287 F. (2d) 689.

The discussion below will be as brief as possible and in most instances will only direct the Court to the citation in the transcript where Mrs. Pruitt has been given the lie direct or by logical implication. There are many other matters upon which she testified falsely as well.

a. Testimony of Henry Longton, (Tr. Page 299, lines 14-25; Page 300, lines 1-5) and Anita Ashley (Tr. Page 252, lines 9-18) reveal a meeting considerably different than that testified to by Mrs. Pruitt. According to Mrs. Pruitt, she requested Mr. Longton to call the tile graders together and advise them that she was being relieved of her job of instructing and assisting the other graders. According to Mr. Longton, he called the girls together because there had been complaints about the trouble Mrs. Pruitt was causing and he told them that visiting back and forth had to be stopped, that they were supposed to be working, and that if they had any questions pertaining to their tile

grading or what they should do, they were to bring it directly to Longton. Incidentally, he asked them to stop taking any questions to Mrs. Pruitt. Mr. Longton's version is borne out by Mrs. Ashley's testimony and it should be remembered that Mrs. Ashley was a friend of Mrs. Pruitt.

b. The evidence in regard to this letter reveals that Mrs. Pruitt was very tricky and deceitful in the manner in which she gave her testimony and her testimony was a clear attempt to deceive the Examiner. Mrs. Pruitt testified, in response to a question as to what date had she mailed the letter is: "I mailed this on a Saturday and when I went to my hearing I handed Lee Wilson a copy of this to be read...." The meeting was on Sunday and that fact was in evidence. If Mrs. Pruitt had not been cross examined closely on this, the only inference that anyone could draw would be that she mailed the notice the Saturday before the meeting. However, upon cross examination, (Tr. Page 156, lines 1-25; Page 157, lines 1-25; Page 158, lines 1-25; Page 159, lines 1-24) a different story entirely was wrung from Mrs. Pruitt and she retreated only when she realized that there was a post-marked envelope giving the lie to her statement. It was apparent to those in the courtroom at the time of the hearing and it is still apparent after reading the testimony, that she was trapped in an outright falsehood and was doing her best to crawfish out of it. It finally developed that the letter was not mailed on the day before the hearing which was a Saturday but in fact it was mailed on the 23rd of November which was a Wednesday. Mr. Wilson testified that even at the

Union hearing upon her expulsion called a "trial", Mrs. Pruitt had stated that she had mailed a letter requesting that the trial be delayed. (Tr. Page 96, lines 2-13.) Is it any wonder Petitioner claims she is unworthy of belief.

c. As stated in the brief above, Mr. Longton unfortunately was not asked about this past discharge meeting with Mrs. Pruitt. However, it is inconceivable that he would have given the petition as a basis for the discharge when he had not received the petition, he had recommended a discharge independent of any petition, and he did not see the petition until after her discharge.

d. An examination of Mrs. Pruitt's testimony with regard to her brief meeting with Mr. Longton on the morning of the 27th and her morning and afternoon meetings with Mr. Frashour on that same date reveals the odd fact that in each of those three instances, Mr. Frashour and Mr. Longton stated almost exactly the same thing and that they volunteered the information that they had a petition and four letters, and she did not ask about the petition and letters in the first instance, although she certainly had been informed of their existence by Ashley and Hanley. Then later after sitting through the balance of the NLRB hearing on May 16th and 17th, 1961, in Roseburg, Oregon, Mrs. Pruitt even stated that Mr. Frashour had said the same thing when she went back to see him on the second day. (Tr. Page 320, lines 2-5). Petitioner submits that her testimony in regard to these matters is inherently unbelievable and that the testimony of Mr. Frashour (Tr. Page 276, lines 1-25; page 277, lines 1-25; page 278, lines 1-25; page 279, lines 1-7); and that of Mr.

Cooke (Tr. Page 312, lines 24-25; page 313, lines 1-15; page 314, lines 18-25; page 315, lines 1-25) is much more logical and worthy of belief and is a true statement of what transpired at the various meetings.

e. This exception is covered in the discussion in the preceding paragraph.

f. Mrs. Green very clearly disagrees with Mrs. Pruitt as to whether or not the two of them ever had any difficulties. (Tr. Page 204, lines 8-23; page 205, lines 11-25; page 206, lines 1-7; page 220, lines 16-25; page 221, lines 1-25; page 222, lines 1-10; page 224, lines 7-21; page 226, lines 1-18).

g. Everyone but Mrs. Pruitt was evidently aware that she was having difficulties with Phyllis Candelaria. (Mrs. Green Tr. Page 207, lines 22-25; page 208, lines 1-15; page 218, lines 8-18) Candelaria (Tr. Page 230, lines 9-25; page 231, lines 1-25; page 232, lines 1-11; page 236, lines 7-23). Ashley (Tr. Page 244, lines 17-25. Crites (Tr. Page 257, lines 7-25; page 258, lines 1-12).

h. Mrs. Green and Mrs. Ashley both testified concerning the troubles Mrs. Pruitt had had with Mrs. Ashley (Tr. Mrs. Green Page 208, lines 15-24; page 218, lines 18-21; page 219, lines 20-25; page 220, lines 1-14.) Mrs. Ashley, Page 244, lines 1-15.

i. Mrs. Crites, who is a very meek, mild little woman testified regarding her difficulties with Mrs. Pruitt. (Tr. Page 256, lines 18-25).

j. This is perhaps the most patent falsehood of them all. Mr. A. C. Roll represented Mrs. Pruitt in the hearing before the Oregon

State Unemployment Compensation Commission. Mr. Roll as the counsel for the Local IWA Union prepared the charges and of necessity discussed them with Mrs. Pruitt. Her statement that she had never talked to Mr. Roll is utterly beyond belief.

k. The fact that she had trouble with Robert Pryce is evident from his letter and from his entire testimony.

l. Mrs. Pruitt's statement that she barely knew Ben Kempke must come as a surprise to everyone at Pacific Plywood. According to Mr. Longton, Mrs. Green and Mrs. Ashley, Kempke and Mrs. Pruitt were in a wild argument at least on Mrs. Pruitt's part, and her statement that she merely knew him passes comprehension. (Tr. Longton, Page 295, lines 9-22; Green, Page 207, lines 1-21; Ashley, Page 249, lines 10-21).

m. It appears that Petitioner is wrong in labeling one of the foregoing the most patent falsehood because this one almost certainly is in a wilder realm of fancy. (Tr. Page 322, lines 2-14).

n. Mrs. Pruitt's denial of a conversation with Mrs. Ashley at the time Mrs. Pruitt was given a warning slip (Petitioner's Exhibit #11) is contradicted explicitly by the testimony of the other two persons involved, Mr. Longton and Mrs. Ashley. (Tr. Longton, Page 300, lines 6-25; page 301, lines 1-12; page 308, lines 5-15; Ashley, page 252, lines 2-25; page 253, lines 1-25. Their testimony reveals a quite extensive conversation. The reason why Mrs. Pruitt would deny this is not apparent except perhaps that she has become an habitually false witness.

o. While it may be true that Mrs. Pruitt never threatened to beat Mrs. Candelaria up in Mrs. Candelaria's presence, nevertheless she

did tell Mrs. Ashley that she would like to and Mrs. Ashley believed that she would. (Tr. Page 245, lines 3-15; page 246, lines 4-7).

p. Two of Mrs. Pruitt's fellow employees, one of them a friend of hers, stated that she told them to slow down in their work, that they were grading too fast and would have to go home if they ran out of tile. (Tr. Candelaria, Page 232, lines 4-25; page 233, lines 1-20; Ashley, Page 248, lines 6-9; page 249, lines 23-25; page 250, lines 1-12).

q. This exception is covered in one of the preceding exceptions.

r. For no apparent reason Mrs. Pruitt testified that Mr. Frashour told her that he would not give her a recommendation in writing because it was against Company policy but that he would be glad to give her a recommendation over thephone. Mr. Cooke testified that Frashour said that he would write a letter of recommendation to a particular employer, that is addressed to a specific party, but that he would not write a letter, "To Whom It May Concern". (Tr. Page 314, lines 1-11) Mr. Frashour's testimony concerning the letter of recommendation was similar to that of Mr. Cooke. (Tr. Page 277, lines 10-16; page 280, lines 15-25; page 281, lines 1-3).

SPECIFICATION OF ERROR, NUMBER SEVEN

The three subparagraphs of this Specification are covered herein by the following three paragraphs bearing the same letters as the specifications to which they apply.

a. It is apparent from the transcript of the proceedings that Mr. Meskill, to put it charitably, testified falsely when he testified that there was a motion made and voted upon at the December meeting of

Respondent Union that a petition be circulated to get Mrs. Pruitt dismissed. His testimony is opposed by the minutes of the meeting, (General Counsel's Exhibit #11), which revealed no such motion or vote. The rules of evidence and the construction thereof concerning corporate minutes are covered above in this brief. Mrs. Hanley, whose testimony the Examiner lauds as being truthful and consistent, opposes Mr. Meskill in his recollection of the meeting (Tr. Page 183, lines 12-25; page 185, lines 1-10). Mrs. Green likewise had a different recollection of that meeting (Tr. Page 201, lines 22-25; page 203, lines 1-6). Of course, Mr. Wilson who prepared the minutes of the meeting also had a different recollection. Yet the Trial Examiner would have the Board believe that Mr. Meskill's testimony was believable. Petitioner submits that his testimony is inherently unbelievable.

b. It was apparent from all the testimony of Mrs. Hanley that she was prejudiced and biased in favor of her friend and neighbor, Mrs. Pruitt. Therefore, her testimony should be viewed with caution. This the Trial Examiner did not do with the single exception when he chose to believe Mr. Meskill rather than Mrs. Hanley concerning the December meeting of the Respondent Union.

c. It is the contention of the Petitioner that the Examiner must find that if Mrs. Woods had appeared and testified, her testimony would have been adverse to that of Mrs. Pruitt. In the latter part of the proceedings, the transcript reveals that the General Counsel claimed to have Mrs. Woods under subpoena and yet he waived the right to proceed therewith. The wisdom of the presumption that the evidence of

Mrs. Woods would be adverse to Mrs. Pruitt, is based upon sound and age-old reasoning. We must assume that Mrs. Woods stayed away from the proceedings because she did not wish to perjure herself on behalf of Mrs. Pruitt.

CONCLUSION

It is respectfully submitted that the Decision and Order of the National Labor Relations Board made and entered in this matter was not in accordance with the law or the facts and a Decree of this court should be made and entered setting aside said Decision and Order and dismissing the complaint herein in its entirety.

Respectfully Submitted,

GEDDES, FELKER, WALTON & RICHMOND
JAMES G. RICHMOND
Box 1265
Roseburg, Oregon

APPENDIX

TABLE OF EXHIBITS

(All were admitted without objection)

<u>Identifying Number</u>	<u>Description</u>	<u>Transcript Reference</u>
General Counsel's No. 1A	Charge against Employer dated February 15, 1961.	
General Counsel's No. 1B	Affidavit of Service upon Employer of 1A, dated February 15, 1961.	
General Counsel's No. 1C	Affidavit of Service upon Independent Particle Board Employees, Inc., of 1A, dated February 15, 1961.	
General Counsel's No. 1D	Charge against Labor Organization, dated February 15, 1961.	
General Counsel's No. 1E	Affidavit of Service of 1D dated February 15, 1961.	
General Counsel's No. 1F	Order consolidating cases, Complaint, and Notice of Hearing dated April 13, 1961.	
General Counsel's No. 1G	Affidavit of Service of 1F dated April 14, 1961.	
General Counsel's No. 1H	Answer of Pacific Plywood Company.	
General Counsel's No. 1I	Answer of Independent Particle Board Employees, Inc., dated April 26, 1961.	
General Counsel's No. 1J	Index and Description of Formal Documents.	
General Counsel's No. 2	Letter dated November 25, 1960, from Respondent Union to Petitioner with reference to action under Article III of contract.	

<u>Identifying Number</u>	<u>Description</u>	<u>Transcript Reference</u>
General Counsel's No. 3	Copy of Article III of the contract between Sierra and Respondent Union. (Sierra is Petitioner.)	
General Counsel's No. 4	Letter of November 22, 1960 from Respondent Union to Petitioner's payroll department with reference to withholding Pruitt's dues.	
General Counsel's No. 5	Petition to Sierra (^P etitioner) signed by 16 employees.	
General Counsel's No. 5A	Envelope for General Counsel's No. 5.	
General Counsel's No. 6	Letter dated November 5, 1960 from Respondent Union to Pruitt with reference to trial and dismissal.	
General Counsel's No. 7	Letter from Pruitt to Respondent Union with reference to Charges, etc.	
General Counsel's No. 8	Notification of trial from Respondent Union to Pruitt.	
General Counsel's No. 9	Letter to Respondent Union from Pruitt.	
General Counsel's No. 10	Wilson's affidavit to N.L.R.B. investigator Strumpf.	
General Counsel's No. 11	Minutes of a meeting of Respondent Union.	
Respond. Union's No. 1	Minutes of a meeting of August, 1960.	
Respond. Union's No. 2	Minutes of a meeting of September, 1960.	
Respond. Union's No. 3	Minutes of a meeting of October, 1960.	

<u>Identifying Number</u>	<u>Description</u>	<u>Transcript Reference</u>
Respond. Union's No. 4.	Minutes of a meeting at which trial of Pruitt was held.	
Respond. Union's No. 5	Envelope which contained General Counsel's No. 9, postmarked November 23, 1960.	
Petitioner's No. 1A	Letter from Lorna Green to Petitioner.	
Petitioner's No. 1B	Envelope for 1A.	
Petitioner's No. 2A	Letter from Bob Pryce to Petitioner.	
Petitioner's No. 2B	Envelope for 2A.	
Petitioner's No. 3A	Letter of Sylvia Crites to Petitioner.	
Petitioner's No. 3B	Envelope for 3A.	
Petitioner's No. 4A	Letter of Phyllis Candelaria to Petitioner.	
Petitioner's No. 4B	Envelope for 4A.	
Petitioner's No. 5	Warning slip given to Anita Ashley.	
Petitioner's No. 6	Termination slip to Pruitt.	
Petitioner's No. 7	Letter of Recommendation for Pruitt.	
Petitioner's No. 8	Letter directed to IWA.	
Petitioner's No. 9	Two letters, IWA to Petitioner and Petitioner to IWA.	
Petitioner's No. 10	Interoffice Memo.	

No. 17721 ✓
IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

SUNSET HOUSE DISTRIBUTING CORP., a corporation, and
AMERICAN COVER CO., INC., a corporation,

Appellants,

vs.

VERNA H. DORAN, WILLIAM E. DORAN and VERN H.
DORAN, dba PLASTI-PERSONALITIES, a sole proprietor-
ship,

Appellees.

Appeal From the United States District Court for the
Southern District of California, Central Division.

OPENING BRIEF OF APPELLANTS.

VAUGHAN, BRANDLIN, ROBINSON & ROEMER,
RICHARD I. ROEMER,
MARVIN A. FREEMAN, ATTORNEYS AT LAW

411 West Fifth Street,
Los Angeles 13, California,

Attorneys for Appellants.

FILED

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SUNSET HOUSE DISTRIBUTING CORP., a corporation, and
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VERNA H. DORAN, WILLIAM E. DORAN and VERN H.
DORAN, dba PLASTI-PERSONALITIES, a sole proprietor-
ship,

Appellees.

Appeal From the United States District Court for the
Southern District of California, Central Division.

OPENING BRIEF OF APPELLANTS.

Jurisdiction.

This action was brought by Verna H. Doran and William E. Doran, who are engaged in the manufacture, distribution and sale of ornamental plastic figures, for an injunction and damages arising out of an alleged infringement of a copyright and unfair competition. Jurisdiction of the District Court was invoked under the Copyright Laws of the United States, 17 U. S. C. A., and under 28 U. S. C. A., Sections 1338(a) and 1338(b). It was tried on appellees' com-

plaint [R. 2]* and appellants' answer thereto [R. 8] in the United States District Court for the Southern District of California, Central Division, before the Honorable William M. Byrne, Judge Presiding. From a judgment for the plaintiffs [R. 121] enjoining and restraining defendants from infringing the plaintiffs' copyright forming the subject matter of the action, damages in the amount of \$2,291.00, plus \$1,000.00 attorney's fees, appellants have appealed.

This Court has jurisdiction to review the Judgment and the Findings of Fact and Conclusions of Law under the United States Judicial Code (65 Stat. 929; 28 U. S. C. 1291 and 65 Stat. 727; 28 U. S. C. 1294).

Statement of the Case.

Appellees, plaintiffs below, manufacture, distribute and sell ornamental plastic figures used primarily for decorations [T. 6]. Appellant American Cover Co., Inc., also manufactures among many other things, an ornamental plastic figure [T. 110]. It is sold primarily by appellant, Sunset House Distributing Corp. [T. 128]. The particular figures involved in this litigation and this appeal are approximate lifesize reproductions of Santa Claus [Exs. 1, 2 and 6]. These figures are made of vinyl plastic in the nature of a "bag" [Ex. 2; T. 14, 62] which, when stuffed with newspapers or similar bulky material, takes on the shape of a human form, which, in this instance, resembles the popular conception of Santa Claus [Exs. 1 and 6; T. 14-16, 62-63, 74]. The item is sold to the public in its unstuffed form [Ex. 2]. The purchaser must therefore

*"R." refers to the Clerk's Record. "T." refers to the Reporter's Transcript of the trial.

stuff it with newspapers or other appropriate material in order for the item to attain its three-dimensional shape. Its use appears to be primarily as a Christmas decoration, both commercially and in and around the home [T. 22].

In 1958, appellees obtained a copyright [Ex. 3] and submitted a photograph of the appellees' Santa Claus to the Register of Copyrights, pursuant to 17 U. S. C. A 13 [Ex. 20; T. 67]. Appellees' Santa Claus was copyrighted under 17 U. S. C. A. 5(g) as a "work of art." Appellees started selling their Santa Claus in 1958 and continued selling same each year thereafter through the 1960 Christmas season [T. 17]. Appellees' Santa Claus sold retail for \$7.89 [T. 17], \$6.95 to \$7.98 [T. 50, 58, 103], and as high as \$9.98 [Ex. 14]. Appellees' wholesale price in 1960 was \$4.25 [T. 53].

In 1960, appellant American Cover Co., Inc., commenced the manufacture of a plastic Santa Claus figure [Ex. 6; T. 110]. The Santa Claus manufactured by appellant American Cover Co., Inc., was also "life-size" and in the nature of a plastic bag that was to be stuffed with newspapers or other appropriate material and used as a Christmas decoration [Ex. 6]. It sold wholesale for \$3.10 [T. 128] and retail for \$6.98 [T. 95].

The two Santa Clauses, the one manufactured by appellees [Exs. 1 and 2] and the one manufactured by appellants [Ex. 6], are similar in that they both resemble the popular conception of Santa Claus. The idea used to express Santa Claus is the same in that they both use an essentially life-size plastic bag in the shape of the human form to be stuffed with newspapers. and a face mask depicting the popular conception of

Santa Claus affixed thereto. They both have a head, a body, two arms, and two legs.

The costume used by appellees consists of black plastic boots, red trousers and coat, a molded plastic mask, and a molded gold belt buckle with intricate scroll work molded into the plastic [Exs. 1 and 2]. The picture of Santa Claus deposited with the Register of copyrights, pursuant to 17 U. S. C. A. 13, shows a white stripe running from underneath the chin to the bottom of the coat and artificial hair for the beard and hair [Ex. 20]. However, the item ultimately marketed by the appellees only had a white stripe running from under the chin to the waist or belt buckle and did not use the artificial hair for the beard and hair, but merely an impression thereof molded into the plastic mask [T. 8, 9, 64-66].

The Santa Claus manufactured and sold by the appellants likewise had boots, red trousers, and red coat. However, it had no vertical white stripe from the chin to either the waistline or bottom of the coat. The mask used by appellants had an entirely different facial appearance; it was made of buckram, as opposed to plastic, and had a white hairlike beard which was made of entirely different material and was a different shape from the one originally copyrighted by the appellees, and the belt buckle used by appellants was simply a flat piece of flexible plastic material cut in the shape of a belt buckle and was in no way similar to the one used by appellees [Ex. 6; T. 14-16, 20, 21, 64-66, 127, 129-130].

It is contended by the appellees, and it was so found by the Court below, that the Santa Claus manufactured and sold by appellants was a copy of the appellees'

Santa Claus and therefore an infringement on appellees' copyright [R. 121].

The appellees were awarded damages based on 17 U. S. C. A. 101(b), which provides that the copyright proprietor shall be allowed \$1.00 for each infringing copy of his work of art (other than a painting, statue or sculpture, for which \$10.00 is allowed), made or sold by or found in the possession of the infringer or his agents or employees, and thereupon awarded appellees the sum of \$2,291.00. Although the Court apparently found that the appellants had competed unfairly, the Court made no award of damages to appellees for such alleged unfair competition, but based its award of damages solely on the alleged infringement of the copyright [R. 121]. The injunction granted to appellees against the appellants enjoined and restrained appellants solely "from infringing the plaintiffs' copyright forming the subject matter of this action" [R. 121]. There is no mention in the judgment of any award on account of the alleged unfair competition. In addition to the foregoing, the Court, pursuant to 17 U. S. C. A. 116, awarded appellees the sum of \$1,000.00 as and for a reasonable attorney's fee [R. 121].

The Questions Presented.

(1) Did not the Court err in finding that appellees' *entire* Santa Claus was the subject of a valid copyright, in that Santa Claus is part of the public domain and everyone's basic conception of Santa Claus is the same, and only that *part* of appellees' Santa Claus, if any, that was original and non-functional was entitled to the protection of a copyright?

This question was raised by appellants' motion for judgment of dismissal, which was denied [T. 145-155].

(2) Did not the Court err in finding that the appellees had a valid copyright on their Santa Claus figure by reason of the fact that the Santa Claus figure copyrighted by appellees was not the same as the Santa Claus figure sold to the public by appellees?

This question was raised by appellants' motion for a judgment of dismissal, which was denied.

(3) Did not the Court err in finding that appellants infringed on the appellees' copyright, in that the record clearly indicates that only the *idea* and the *functional* aspects of the design were used?

This question was raised by appellants' motion for a judgment of dismissal, which was denied.

(4) Did not the Court err in finding that appellants had infringed on the appellees' copyright, in view of the fact that substantial differences exist between the two Santa Clauses sold to the public?

This question was raised by appellants' motion for judgment of dismissal and in their memorandum filed with the District Court subsequent to the trial [T. 68].

(5) Did not the Court err in finding that appellees owned a valid copyright, in that the Santa Claus copyrighted by appellees was sold to the public in a partially completed form and it remained for the ultimate purchaser to complete it so that it would appear the same as the one copyrighted?

This question was raised by appellants' motion for judgment of dismissal, which was denied.

(6) Is a three-dimensional life-size figure of Santa Claus, used commercially as a Christmas decoration, a “work of art” within the meaning of 17 U. S. C. A. 5(g), when the same is not sold to the public in its three-dimensional “artistic” copyrighted form?

This question was raised by appellants’ motion for judgment of dismissal, which was denied.

(7) Did not the Court err in finding that the appellees’ Santa Claus was the proper subject of a valid copyright, in that it is not a “writing”, “authored” by appellees, as required by Article I, Section 8, of the Constitution of the United States?

This question was raised by appellants Supplemental Memorandum of Contentions of Fact and Law, filed with the District Court on June 22, 1961 [R. 43].

Specification of Errors.

(1) The Court erred in finding that appellees had a valid copyright.

(2) The Court erred in finding that appellants’ Santa Claus was a “copy” of appellees’ Santa Claus and therefore an infringement.

(3) The Court erred in failing to distinguish between the using of an *idea* and the *functional* aspects of the article, as opposed to the copying of the *expression* of the idea itself.

(4) The Court erred in holding that the *originality* of appellees’ Santa Claus lies in its form—three-dimensional—and the medium—plastic.

Summary of Argument.

(1) Appellees' Santa Claus was not a proper subject of copyright.

(2) By finding that appellees' copyright of Santa Claus was valid, the Court in effect has given appellees a monopoly on life-size, three-dimensional Santa Clauses because it is virtually impossible to reproduce a Santa Claus that does not have certain required characteristics, such as a red suit, white stripes, white hair and beard, and rotund appearance, and hence appears to have been copied from appellees' Santa Claus.

(3) Appellants did not copy the appellees' Santa Claus, mainly because appellants' Santa Claus mask (the face of its Santa Claus) was entirely different from the face on appellees' Santa Claus, as well as certain differences in the costume, as more particularly described below.

(4) Appellees lost their right to the copyright protection of their Santa Claus because the Santa Claus they sold to the public was different from the Santa Claus registered with the Register of Copyrights.

(5) The issue of unfair competition appears to be academic.

ARGUMENT.

Appellees Cannot Copyright Santa Claus.

Appellants ask the Court to conjure up a vision of Santa Claus. It is belived that you will see a plump man in a red suit with fringes of white fur or striping on his suit, white gloves, black boots, red hat, black belt and:

“ . . . Eyes how they twinkled! His dimples how merry! His cheeks were like roses, his nose like a cherry. His droll little mouth was drawn up like a bow, And the beard on his chin was as white as the snow. . . . He had a broad face and a little round belly That shook when he laughed like a bowl full of jelly. He was chubby and plump, a right jolly old elf . . . ”

(“*A Visit from Saint Nicholas*”, written in 1822 by Clement C. Moore.)

This vision will be the same if conjured up by this Honorable Court, the trial judge, the parties to this litigation or a child on the street. It is respectfully urged that the only fundamental difference between the one you will conjure up and the one that this writer will conjure up will be the appearance of the face. The basic fundamentals of Santa Claus’ visual appearance will be identical—only the face will change. Compare the masks used by appellees on their Santa Claus [Exs. 1 and 2] and the mask used by appellants on their Santa Claus [Ex. 6]. Not only is the expression entirely different, but the material is different and the make-up is different. It should be noted that the

appellees used two different masks on their Santa Claus [T. 9, 64]. One had a beard and hair of hair-like substance, and the other had an impression of a beard and hair molded into the plastic mask. The mask used by appellants was at all times the same and had a beard of hair-like substance and was marketed as such. It was purchased from a New York mask company and is a standard "shelf" item [Ex. B; T. 128-130]. One cannot fail to see the difference in the two faces. Appellants urge that the difference in the faces is basic, fundamental and vital, and conclusively establishes that appellants' Santa Claus is not an infringing "copy" of appellees' Santa Claus, since the other similar items, with the possible exception of appellees' belt buckle, are part of the public domain and are not original to appellees. The human form was not originated by appellees, nor was the basic popular conception of Santa Claus. The latter is part of the public domain. In *Barton Candy Corp. v. Tell Chocolate Novelties Corp.*, D. C. N. Y., 178 Fed. Supp. 577 at 582, the Court said:

"The idea of Santa Claus as part of the Christmas motif belongs to the public domain and cannot be withdrawn by a copyright."

It is settled law that a copyright can be infringed only by "copying." (*Silvers v. Russell*, D. C. Cal., 113 Fed. Supp. 119; *Lewis v. Kroger Co.*, D. C. W. Va., 109 Fed. Supp. 484.) Ideas cannot be copyrighted. Functional aspects of items cannot be copyrighted. A design of a thing as such cannot be copyrighted. The only right conferred by a copyright is the right to reproduce the visual expression of the idea, that is, the thing itself.

In the leading case of *Mazer v. Stein*, 347 U. S. 201 (1954), the Supreme Court held that:

“Unlike a patent, a copyright gives no exclusive right to the art disclosed; protection is given only to the expression of the idea—not the idea itself.”

This would clearly seem to eliminate any issue of infringement by reason of the fact that appellants' Santa Claus was similar to appellees' Santa Claus in the idea and function, to wit: a plastic bag which, when stuffed with newspapers and given a mask, achieves a life-like three-dimensional appearance, looking like the popular conception of Santa Claus. The Court went on to say, in *Mazer v. Stein* (*supra*):

“Thus, respondents may not exclude others from using statuettes of human figures in table lamps; they may only prevent use of *copies* of their statuette as such or as incorporated in some other article.” (Emphasis added.)

Only new and original material added to matter already in the public domain is entitled to the protection of a copyright. (*Hayden v. Chalfort Press, Inc.*, 9th Cir., 281 F. 2d 543; *Dorsey v. Old Surety Life Ins. Co.*, 10th Cir., 98 F. 2d 872.) Appellants contend that the only originality, aside from possibly the idea and the function, of appellees' Santa Claus, appears in the mask and the belt buckle, and although not urged by appellees, it is likely that these two items alone could be validly copyrighted under existing law. There is no contention made by appellees that appellants copied appellees' mask and belt buckle. In fact, the Court, in its Memorandum Decision [R. 95], specifically found as follows:

“However, there are certain differences between defendants’ Santa Claus and that of plaintiffs. Defendants did not use a molded belt buckle, but instead cut a more simple item from flat sheet plastic having a somewhat different form and appearance from that of plaintiffs’ belt buckle. Also, the face for defendants’ unit is a flexible mask, while the hood is of cloth instead of plastic.”

Simple observation will clearly demonstrate that the belt buckles are vastly different and that not only is the material used in the mask of appellees’ Santa Claus different, but the facial expression created is quite different.

From the foregoing, it must be concluded that appellees do not have the right to prevent others from producing three-dimensional plastic Santa Clauses and that the originality of appellees’ product does not lie alone in the fact that it is three-dimensional and made of plastic, as the Court apparently indicates in its Memorandum Decision [T. 95]. We respectfully submit that this is not the proper criterion for originality, in so far as the copyright laws are concerned. If this were the proper criterion, a sculptor could obtain a copyright because his statue is three-dimensional and made of marble. The Court apparently recognized this in sustaining appellants’ Objections to the Findings of Fact [R. 116, 120]. It would seem that this misconception, however, subconsciously permeates the Memorandum of Decision [R. 95] and the Judgment [R. 121].

Appellants admit that the *idea* for their Santa Claus was obtained from appellees’ Santa Claus [T. 157]. Appellees can find no consolation in this admission

because, as indicated, the appropriation of appellees' idea is not protected under the copyright law. (*Mazer v. Stein, supra.*) Appellee, Verna Doran, testified that the other features of her Santa Claus other than the mask and belt buckle, are purely functional [T. 62-66]. As stated by the Court below in its Memorandum Decision:

“Defendants concede that their Santa Claus has many *mechanical features* ‘not dissimilar’ to those of plaintiffs’ Santa” [R. 95].

Appellees can find no consolation in *this* concession either. At 37 C. F. R. 1949, Sec. 202.8, we find “works of art” defined as follows:

“Works of Art (Class G)-(a) In General, this class includes works of artistic craftsmanship, in so far as their form *but not their mechanical or utilitarian aspects* are concerned, such as artistic jewelry, enamels, glassware and tapestries, as well as all works belonging to the fine arts . . .” (Emphasis added.)

Appellants also concede that when the two items are stuffed and placed side-by-side on display, there are similarities because they look like Santa Claus. It is respectfully submitted that they also look like every other three-dimensional Santa Claus that is used at Christmas-time, including the Santa Claus sitting in department stores, the Santa Claus standing on the street corner collecting for charity, the Santa Claus hanging on Christmas trees in the form of ornaments, and any other three-dimensional form or use of Santa Claus that one could imagine. This is obviously so, by virtue of Santa Claus' stereotyped appearance. Appel-

lants, however, point out that when the two Santa Clauses are placed side-by-side, the differences are readily apparent [Exs. 1 and 6].

They are different by reason of the appearance of the face. Both the material used in its construction and the expression achieved in these materials are vastly different. This fundamental difference can hardly be characterized as “minor” as found by the Court, both in the Findings [R. 122] and the Memorandum of Decision [R. 95]. The belt buckle, which is a prominent part of Santa Claus’ costume, is also quite different. Appellees’ belt buckle is relatively large and flashy and molded of a hard gold plastic and is very prominent. The belt buckle on appellants’ Santa Claus is a flat, inexpensive, gray-colored piece of soft plastic material that is cut out and is without substantial dimension; the shape of the feet are also different—but, in the final analysis, they are both clothed in red suits with white stripes and are fat and of average height and have a white beard, and no one could mistake that they are both a reproduction of Santa Claus. We submit that this is not enough to constitute an infringement.

Appellees apparently seek to monopolize the technique and art of making this Santa Claus. Appellees have also attempted to monopolize something that is part of the public domain. This problem has been answered as follows:

“Where . . . an author’s monopoly threatens to infringe unduly on the public use of the ideas or objects of that expression, the courts have demonstrated flexibility in adjusting the conflicting theories. Thus, copyrightability may be

altogether denied; or, if copyright is upheld, *restrictively protected by requiring almost verbatim copying to constitute infringement*. In other situations, the subject and purpose of copyright may be explicitly defined as not to authorize an over-generalized monopoly which would restrict fair use of the disclosed information or objects. *Continental Casualty Company v. Beardsley*, D. C. N. Y., 151 Fed. Supp. 28, 32." (Emphasis added.)

Appellees Cannot Obtain a Copyright on a Three-Dimensional "Work of Art" and Sell a Non-Three-Dimensional Article and Also Change the Copyrighted Article and Then Sell the Altered Non-Three-Dimensional Item to the Public, Without Losing the Protection Afforded by a Copyright.

Appellees admit that the Santa Claus copyrighted is not the same as the Santa Claus that they ultimately sold [T. 65-66]. The mask used in the copyrighted item is not the same as the mask they ultimately sold to the public, and the appearance of Santa Claus' coat is different in that a white stripe running from the collar to the bottom of the coat is on the item that is copyrighted, but this was partially removed from the item sold to the public, and the white stripe stops at the waist. The photo deposited with the Register of Copyrights indicates that appellees' Santa Claus has the exact dimension of 6 feet [Ex. 20]. The advertisements used by appellees indicate in one place that the Santa Claus is approximately 5 feet 6 inches [Ex. 17], and another 5 feet 7 inches [Exs. 10 and 11], and still another 5 feet 5 inches [Ex. 14]. Furthermore, the item copyrighted was a three-dimensional

figure; that is, the picture filed with the Register of Copyrights shows the stuffed Santa Claus [Ex. 20]. The item actually sold to the public is only partially complete in that it is in a flat, unstuffed condition, and does not become three-dimensional until stuffed with newspapers by the purchaser. The Santa Claus manufactured and sold by appellants is not three-dimensional.

It is elementary that the copyright affords the proprietor thereof “the exclusive right to print, reprint, publish, copy and vend the copyrighted work.” (17 U. S. C. A. 1.) It is clear that the law contemplates that the proprietor of the copyright is the only one with the right to *copy* the article thus protected. It is not probable that the law would permit one to copy-right an article, make changes in its appearance, then claim infringement of the altered article, even if the altered article were in fact copied.

In *Decker v. Loews, Inc.*, 9th Cir., 133 F. 2d 889, this Court held that:

“The copyright statute can be infringed only by copying the *copyrighted* material, that is, engaging in literary piracy.” (Emphasis added.)

Assume, for the sake of argument only, that appellants unlawfully copied appellees’ Santa Claus. The record clearly indicates that the appellants’ Santa Claus more closely resembles the one marketed by appellees, *not the one copyrighted by the appellees*. Even if we assume, *arguendo*, that appellees’ *altered* Santa Claus was copied, we are faced with the inescapable fact that there are still further differences—the face, the belt buckle and the absence of a white stripe. Conceding,

again for argument, that appellees' Santa Claus is a substantial copy of the one copyrighted, and appellants' a substantial copy of that, we have then a substantial copy of a substantial copy, *ad absurdum*, until a point is reached where the article copied is no longer even a Santa Claus. Appellants find no cases extending the copyright protection beyond its purpose, *i.e.*, the right to "copy" the item protected. (17 U. S. C. A. 1.)

A Life-Size Three-Dimensional Plastic Santa Claus Is Not a "Writing" "Authored" by the Appellees.

Article I, Section 8, of the Constitution of the United States empowers Congress "to Promote the Progress of Science and useful Arts, by securing for limited Times to Authors—the exclusive Right to their respective Writings."

Justice Douglas in his dissent in *Mazer v. Stein* (*supra*), upon considering Article I, Section 8, of the Constitution, lists the following:

"Statuettes, bookends, clocks, lamps, doorknockers, candlesticks, ink stands, chandeliers, piggy banks, sundials, salt and pepper shakers, fish bowls, casseroles and ash trays."

Such items have been copyrighted. Justice Douglas suggests a rehearing and goes on to state:

"Perhaps these are 'writings' in the Constitutional sense but to me, at least, they are not obviously so."

It would appear that there is no square ruling on this question of whether or not items such as the one at issue are properly copyrightable. In a Constitutional

sense, it is difficult to torture the word "Writings" to include any of the items listed by Justice Douglas, as well as the Santa Claus in the case at hand. To so hold would, we believe, be an unconstitutional extension of the copyright law and clearly an extension not intended by the framers of the Constitution, or the Congress.

The granting of a copyright is a limitation on personal freedom and creates in the owner an exclusive property right and therefore should be strictly construed. (*Westway Theater v. Twentieth Century-Fox*, D. C. Md., 30 Fed. Supp. 830, affirmed, 113 F. 2d 932.) The "author's" right to a monopoly of his work is measured and determined by the copyright statute. (*American Code Co. v. Bensinger*, 2nd Cir., 282 Fed. 829.) Copyrights and the rights flowing therefrom are entirely creatures of statutes. (*Loews, Inc. v. Columbia Broadcasting System*, D. C. Cal., 131 Fed. Supp. 165, affirmed 356 U. S. 43; *Miller v. Goody*, D. C. N. Y., 125 Fed. Supp. 348.)

The Issue of Unfair Competition Appears to Be Academic.

Under 28 U. S. C. A. 1338(b):

"The District Courts shall have original jurisdiction over any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trademark laws."

Appellants believe they have clearly demonstrated that the case at hand does not present a "substantial and related claim under the copyright—laws."

Furthermore, while the trial court in its Findings [R. 121] held that appellants had competed unfairly with appellees, the Court did not award appellees either money damages or an injunction. The Judgment [R. 121] relates solely to the damages flowing from the alleged infringement of the copyright.

Conclusion.

Appellees do not have a valid copyright. The Santa Claus sold to the public was not the same Santa Claus for which an application for copyright was made. Appellants did not copy appellees' alleged copyrighted Santa Claus, or the Santa Claus appellees sold to the public. Admittedly, the idea was used and the functional aspects of the Santa Claus were used, but these are not protected by a copyright. The foregoing elements are essential to support a judgment for infringement. The Judgment should be reversed with directions to dismiss the complaint.

Respectfully submitted,

VAUGHAN, BRANDLIN, ROBINSON &
ROEMER,

RICHARD I. ROEMER,

MARVIN A. FREEMAN,

Attorneys for Appellants.

APPENDIX.

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No. 17721

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

SUNSET HOUSE DISTRIBUTING CORP., a corporation,
and AMERICAN COVER CO., INC., a corporation,

Appellants,

vs.

VERNA H. DORAN, WILLIAM E. DORAN and VERN H.
DORAN, dba PLASTI-PERSONALITIES, a sole proprietorship,

Appellees.

APPELLEES' BRIEF.

RICHARD F. CARR,

3850 West Santa Barbara Avenue,
Los Angeles 8, California,

WILLIAM E. MOORE,

611 South Catalina Street,
Los Angeles 5, California,

Attorneys for Appellees.

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FRANK H. BROWN JR.

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DORAN, dba PLASTI-PERSONALITIES, a sole proprietorship,
Appellees.

APPELLEES' BRIEF.

Jurisdictional Statement.

This is an action based on copyright infringement and unfair competition. The appeal is taken from a judgment in favor of the appellee copyright proprietors. Damages of \$2,291.00 were awarded together with attorneys' fees of \$1,000.00. The appellants were enjoined from infringing the appellee's copyright. In addition, it was held that the appellants had engaged in unfair competition.

The jurisdiction below was based upon the copyright laws of the United States, 17 U. S. C. A., and for a substantial and related claim in unfair competition under 28 U. S. C. A., Sections 1338(a), 1338(b). This court has appellate jurisdiction under 28 U. S. C. 1294 to review the judgment entered against appellants.

Statement of the Case.

Appellee devised and originated a life-sized three-dimensional Santa Claus figure useful as a Christmas decoration [Exs. 1 and 2]. A major component of this figure is a large bag sewn together from plastic sheet material and provided with a slit in the back for the insertion of crumpled newspaper. The large bag is cut from an appropriate pattern so that it defines the arms, legs and torso of a life-like figure. The pattern was devised to minimize the possibility of failure at points of stress, and hence there are no seams at the shoulders of the figure. A small bag is included at the top over which is fitted a face and hood. On the back a flap is provided to receive a stick for supporting the head. A tunic is secured around the waist of the figure to provide the illusion of a coat [T. 14-16]. White trim is utilized to give the appearance of mittens and fur, while black plastic serves for the boots. A square molded belt buckle, inscribed with scroll work and including a central opening, is attached to the center portion of the tunic.

Appellee Verna Doran embarked in a business principally engaged in the manufacture of this Santa Claus figure. The trade name "Plastic Personalities" was adopted and later changed slightly to "Plasti-Personalities" [T. 10]. Similarly, "Plastic Personalities" was adopted as appellee's trademark, later becoming "Plasti-Personalities" for which California registration was obtained [Ex. 4].

Appellee's Santa Claus figures have all borne the prescribed copyright notice. After publication with the notice, copyright registration was obtained [Ex. 3]. Later, for production purposes, a minor modification of the design was made [Ex. 2], differing primarily in

that the vertical white stripe on the figure extends only to the belt rather than to the bottom of the tunic. In some instances the face of the Santa Claus does not include white hair over the molded white plastic representation of the beard.

Appellee's Santa Claus figures have been packaged in a transparent plastic bag and accompanied by an instruction sheet for the construction of a simple wire frame to hold the figure in a standing position [Ex. 5]. Appellee's trademark and trade name "Plasti-Personalities" appears on this sheet. "Plasti-Personalities" also is imprinted on other descriptive material included in the package.

Various retail stores have acted as outlets for appellee's Santa Claus figures and have advertised it extensively. This has included a representation of Santa Claus in the unusual pose of straddling a roof gable [Exs. 10 and 13]. Similar illustration on behalf of appellee's product is found on literature accompanying appellee's package. These advertisements were based upon appellee's photograph of her Santa Claus figure [Ex. 8].

The appellee's Santa Claus was introduced on the market in 1958 at a wholesale price of \$4.75 [T. 53] per item to retail at \$7.95. Approximately 2,500 to 3,000 Santa Claus figures were produced that year and marketed through retail outlets [T. 17]. In 1959 around 5,000 Santa Claus figures were sold by the appellee [T. 17] at a price of \$4.25 [T. 53]. However, in 1960, again at a price of \$4.25 [T. 53], sales dropped back to 3,000 figures [T. 17], leaving plaintiff with a sizable inventory at the end of the season. This was despite an expanded distribution network in 1960 that included a major nation-wide mail order house [T. 29-30].

During the year 1960 appellant American Cover Co., Inc. (hereinafter called "American Cover"), commenced the manufacture of its Santa Claus figure [Ex. 6] which was sold to the retail trade by appellant Sunset House Distributing Corp. (hereinafter referred to as "Sunset"). This included sales through nationally distributed mail order catalogs and through retail stores. There were some additional sales by representatives of American Cover.

Mr. Tashman of appellant American Cover admitted having obtained one of appellee's Santa Claus figures prior to production of their own, and testified that it might have been secured from Mr. Carlson of appellant Sunset [T. 110 and 114]. At any rate, Mr. Tashman was asked by Mr. Carlson to produce a Santa Claus figure such as that manufactured by the appellee, and such as Mr. Carlson had observed in the advertisements of appellee's product by the Broadway stores.

The appellants' Santa Claus figure turned out to be substantially identical to appellee's in size, shape and appearance. The same large bag is utilized to receive the stuffed newspaper which is introduced in a slit similar to that provided in appellee's Santa Claus. Again a small bag is provided to support a hood and mask representing the head. A tunic is snapped around the central portion of the torso just as in the appellee's Santa Claus. The plastic sheets are cut from a pattern similar to that of the appellee's product, and the bag is arranged to omit a shoulder seam as in the appellee's design.

Careful inspection of the two Santa Claus figures reveals certain differences. The appellants reduced their cost by omitting the vertical white stripe from the face to the belt, and they did not use a molded belt buckle

but instead cut a more simple item from flat sheet plastic having a somewhat different form and appearance from that of the appellee's belt buckle. Additionally, the face and hood of appellants' unit are of fabric and not plastic.

Appellants sold their Santa Claus figure in a transparent bag similar to appellee's package, into which also was inserted an advertising leaflet observable from the exterior of the package [Ex. 6, T. 116 and 117]. This leaflet bears a large picture of a stuffed Santa Claus figure. It was prepared by Ernest Mowinckel who testified how he made the illustration from a Santa Claus figure received from Mr. Tashman of American Cover [T. 42].

The Santa Claus figure shown on this leaflet naturally looks much like the product both of the appellants and appellees in view of the close similarity between these two items. However, the Santa Claus shown on this leaflet includes a white stripe extending from the face to the belt. This is true of the appellee's Santa Claus figure but unlike that of the appellants. Also, the Santa Claus of the leaflet has a square belt buckle having scroll work and a central aperture. Such a belt buckle is characteristic of appellee's Santa Claus, but is different from the buckle supplied by appellants. In other words, the illustration accompanying appellants' product faithfully reproduced the appellee's Santa Claus, and did not even include the minor differences found between the two items.

In the promotion of their Santa Claus figure the appellant Sunset distributed a catalog [Ex. 15] and published newspaper advertisements [Ex. 16]. These advertisements of appellant depicted a Santa Claus figure perched upon a roof gable much the same as the il-

illustrations in the earlier ads of appellee's product. The language in the appellant's ads followed a similar format to those of the appellee. The Santa Claus shown on the roof gable had a white stripe from the face to the belt, and also included a square belt buckle with a central opening. The price, however, was \$6.98 instead of the \$7.95 retail cost of the appellee's Santa Claus.

Mr. Carlson of appellant Sunset acknowledged that he had a lengthy conversation with the artist who prepared the illustration for the advertisements and catalog of this appellant. While he testified that he was not certain what had been said in this discussion, he indicated that he "may have" provided the artist with a copy of an advertisement of appellee's product from the previous year [T. 91].

Despite an awareness of appellees' copyright registration, and regardless of the fact that appellants were informed of appellee's rights in her product, the appellants continued to manufacture and sell their infringing Santa Claus throughout the 1960 Christmas season. Until served with papers pertaining to a State Court action, appellants marketed their Santa Claus with an instruction sheet for producing a wire frame to support the Santa Claus [T. 88-90]. This was an exact duplicate sheet of the instruction sheet supplied by appellee, and bore on the top line the name "Plasti-Personalities" [T. 112].

Questions Presented.

The appellants have enumerated seven different paragraphs which set forth what in their viewpoint are the questions to be determined on appeal. Basically, these elaborate contentions boil down to a single underlying inquiry: Were appellees entitled to obtain a valid copyright for their Santa Claus figure?

ARGUMENT.

The appellants primarily base their case upon the theory that no valid copyright can be obtained for a representation of Santa Claus. There is no basis in fact for any such hypothesis. It is well established in copyright law that novelty as to subject matter is not required. It is the treatment of the subject matter that is entitled to copyright protection. *Silvers v. Russell*, 113 Fed. Supp. 119 (S. D. Cal. 1953); *Chamberlain v. Uris Sales Corporation*, 150 F. 2d 512 (2nd Cir. 1945); *Alfred Bell Co. v. Catalda Fine Arts*, 191 F. 2d 99 (2nd Cir. 1951).

The extent to which this doctrine is carried for works of art is exemplified in *Alva Studios Inc. v. Winninger*, 177 Fed. Supp. 265 (S. D. New York 1959). There the copyright proprietor simply reproduced famous works of Rodin on a smaller scale. Yet the copyright was upheld. As the court stated,

“It is hornbook that a new and original plan or combination of existing materials in the public domain is sufficiently original to come within the copyright protection. (*Allegrini v. De Angelis*, D. C., 59 F. Supp. 248, at page 250).”

Thus it is of no moment that Santa Claus is a well known symbolic Christmas-time figure. The appellees created their own version of Santa Claus and devised a new and original work in the form of a three-dimensional plastic figure. As such it was the first of its kind. This goes far beyond the minimum requirements for copyright protection.

The appellants seek to attach importance to their contention that nearly everyone has the same general concept of what Santa Claus should look like. This may

be true in a general sense, but whether or not most people think of Santa Claus in the same manner, the copyright is unaffected.

Actually, there are many variations in representations of Santa Claus, and any careful examination of Christmas displays will reveal that each artist shows Santa Claus slightly altered from every other illustration of this legendary personage. There being no actual model to duplicate, each new Santa Claus (*i.e.*, those not copied from other artists) necessarily must be an original creation. In an effort to demonstrate to the contrary, the appellants have quoted from "A Visit From Saint Nicholas" by Clement C. Moore. However, they omitted the pertinent portions of this work,

"He was dressed all in fur from his head to his
foot,
And his clothes were all tarnished with ashes and
soot,
A bundle of toys he had flung on his back,
And he looked like a peddler just opening his pack,
...
The stump of a pipe he held tight in his teeth,
And the smoke it encircled his head like a wreath.
..."

The copyrighted work in question certainly does not appear to be "dressed all in fur" from head to foot. It does not resemble a peddler, has no smears of ashes, and a pipe is absent from the teeth of the Santa Claus. Hence, the very work which appellants have quoted to show that Santa Claus figures must bear close resemblance to each other actually establishes that there are marked differences among Santa Claus representations.

Appellees Are Protecting Their Original Version of Santa Claus Not the "Idea" of Santa Claus.

The appellants also appear to regard the appellee's action as one to secure exclusive rights in the "idea" of Santa Claus. In this connection, appellants rely upon *Barton Candy Corp. v. Tell Chocolate Novelties Corp.*, 178 Fed. Supp. 577, quoting the court as saying,

"The idea of Santa Claus as part of the Christmas motif belongs to the public domain and cannot be withdrawn by a copyright,"

However, the appellants failed to reproduce the balance of this sentence in which the court continued,

"but the reproduction of this idea in different combinations, adaptations, arrangements or mediums of expression which are sufficiently original will be protected by the copyright laws. *Allegrini v. De Angelis*, D. C. Pa. 1944, 59 Fed. Supp. 248, 250."

Appellees are in agreement with this decision: it is their "combinations, adaptations, arrangements or mediums of expression" which have been granted copyright protection and form the basis of this law suit. Appellees have no thought of appropriating the idea of Santa Claus, seeking only to protect their own original artistic representation of the legendary character.

Appellants' Product Constitutes an Infringing Copy of Appellee's Work.

After strenuously urging that all Santa Clauses have the same appearance, and conceding that the appellants' Santa Claus is similar to that of appellees, the appellants then abruptly reverse positions and argue

that actually the two Santa Clauses in question look different. Hence, they allege that infringement does not exist. However, whether or not there is infringement is not subject to review inasmuch as it is a question of fact already decided by the trial court, unless such finding is clearly erroneous.

“Ordinarily, the trial courts’ formal findings are controlling.”

J. D. Hedin Construction Co. Inc. v. F. S. Bowen Electric Co., Inc., 2 Fr. Serv. 2d 52a, 42, Case 2 (C. A. D. C. 1960).

Of course, there are minor variations between the Santa Clause produced by appellants and that copyrighted by appellees. This is of no consequence. A copyist does not avoid a charge of infringement merely because he appropriates less than the entire copyrighted work. *Pellegrini v. Allegrini, et al.*, 2 F. 2d 610 (3rd Cir. 1924); *Comptone Company v. Raytex Corporation*, 251 F. 2d 487 (2d Cir. 1958); *Universal Pictures Co. v. Harold Lloyd Corporation*, 162 F. 2d 354 (9th Cir. 1947).

Even the functional similarities between appellants’ and appellees’ works tend to show copying on the part of appellants. As the court stated in *Morse v. Fields, et al.*, 122 Fed. Supp. 63 (2d Cir. 1954),

“ . . . the fact of copying may be proven by similarity between both the protected and the unprotected parts of plaintiff’s and defendant[’s] work.”

In the present case, the appellants have reproduced the appellees’ work both aesthetically and as to its unique physical construction.

In determining the fact of copying, the basic test is whether the copy, by ordinary observation, would be recognized as having been appropriated from or patterned after the copyrighted work. *Dymow v. Bolton*, 11 F. 2d 690 (2d Cir., 1962); *Peter Pan Fabrics, Inc. v. Acadia Company*, 173 Fed. Supp. 292 (S. D. N. Y. 1959); affirmed 274 F. 2d 487 (2d Cir. 1960); *Lewis v. Kroger Co.*, 109 Fed. Supp. 484 (S. D. W. Va. 1952); *Allegrini v. De Angelis*, 59 Fed. Supp. 248 (E. D. Pa. 1944), affirmed 149 F. 2d 815 (3rd Cir. 1945). The District Court held that the test had been met by the copy produced by appellants [R. 95].

Minor Changes in Appellees' Product Do Not Affect the Copyright or the Fact of Copying.

The appellants have advanced an argument by which they hope to avoid infringement because appellees made certain minor modifications in their design as the final production version. The pertinence of this argument is not understood. Appellees made only the slightest change and sold the Santa Clause both with and without this trivial variation. The appellants' product is a substantial duplicate of either. The important consideration is that the appellants actually did copy the appellees' *copyrighted* work. As the trial court below observed,

“ . . . it will readily be seen that defendants' Santa Clause constitutes a copy of, and hence an infringement of, plaintiffs' Santa.”

It has been found as a fact by the District Court that the appellants' Santa Claus constitutes a copy of appellees' copyrighted work. The District Court likewise found as a fact that the ordinary observer seeing

the two products would recognize that appellants' work was patterned after that of the appellees, and that the differences were so minor as to not alter this result [R. 121]. Findings of Fact should not be confused with questions of law, and can be set aside on appellant review only if clearly erroneous. Rule 52 F. R. C. P. *Lawlor v. National Screen Service Corp.*, 270 F. 2d 146 (1959); *J. D. Hedin Construction Co., Inc. v. F. S. Bowen Electric Co., Inc.*, *supra*; *Hyde & Gleises v. Booraem & Co.* (1842), 41 U. S. 169. Certainly these Findings of Fact by the trial judge in the present instance are not clearly erroneous and hence must stand upon appeal.

Works of Art Have Long Been Regarded as Writings Under the Constitutional Provision.

The appellants made a final argument that a life-sized three-dimensional Santa Claus figure is not a "writing," and hence not authorized for copyright protection under Article I, Section 8 of the Constitution. The appellants quote only the dissenting opinion in *Mazer v. Stein*, 347 U. S. 201 in an effort to support this position. The majority of the Supreme Court, of course, held that the work of art, in the form of statuettes of Balanese dancers, supported a valid copyright. Indeed, the fact that works of art are within the constitutional provision has long been accepted and virtually without question. Works of art have been covered by our copyright laws for over ninety years. Act of July 8, 1870, C. 230, 16 Stat. 198. Countless decisions since that time have upheld the validity of copyrights granted to three-dimensional works. *Mazer v. Stein*, *supra*; *Rosenthal v. Stein*, 205 F. 2d 633 (9th Cir. 1953).

Hence, the conclusion that three-dimensional artistic objects are writings within the meaning of the Constitution is one of the oldest and best established doctrines in our judicial system.

Appellants Cannot Now Rely Upon New Theories Not Previously Presented.

The appellants in their argument of Questions Presented, Nos. 5 and 6, are enlarging the argument they previously presented to the trial court, by adding new theories. Appellants never before have suggested that the copyright should be held invalid because their product was not stuffed to the three-dimensional form when sold, or that this should withdraw the copyrighted work from the scope of 17 U. S. C. A. 5(g). The appellee cannot now be charged with such new theories as there would be no chance to counter same, and the Circuit Court of Appeals is not the arena for trying new questions. The authorities so hold, *Parrott Estate Co. v. McLaughlin*, 89 F. 2d 188; *Sacramento Suburban Fruit Lands Co. v. Melin*, 36 F. 2d 907; *Fanchon & Marco, Inc. v. Paramount Pictures*, 215 F. 2d 167 (C. A. Cal. 1954); *Aluminum Co. of America v. Sperry Products*, 285 F. 2d 911; *Title Guarantee & Trust Co. v. McIlwain*, 73 F. 2d 754.

The new theory of appellants is inconsequential in any event. The copyright laws ask only that all copies of a work be published with proper notice for protection as a published work of art. There is no other requirement regarding production or nonproduction of the protected work, 17 U. S. C. A., Section 10.

Unfair Competition Was Present in the Conduct of Appellants.

Appellants assert that the matter of unfair competition is now academic only. It is assumed, therefore, that appellants make no appeal from the trial court's ruling that unfair competition existed. While the trial court elected to award damages on the basis of the statutory formula under 17 U. S. C. A. 101, it was specifically held below that appellants conduct amounted to unfair competition [R. 95]. Appellees firmly believe that added damages should have been awarded for the unfair acts of appellants, that were fraudulent *ab initio*. Of course, the appellants have been enjoined from continuing their infringing acts.

Attorneys' Fees.

The facts at hand demonstrate that the present appeal is entirely spurious in nature serving only as harassment, without any substantial basis. This is coupled with the deliberate and premediated actions of defendants in appropriating appellees' creation to their own advantage and appellees' irreparable damage. As such, this Court should award additional attorneys' fees to appellees. In another copyright infringement case, *Boucher v. DuBoyes, Inc.*, 253 F. 2d 948 (2d Cir. 1958) the Court of Appeals of the Second Circuit dealt with a comparable situation:

"In view of the deliberate nature of the infringement and lack of substance to the defendants' continuation on this appeal, the request [for additional

attorneys' fees] has received consideration. An allowance for attorneys' fees has already been made below. Under the circumstances, an additional allowance of Five Hundred Dollars is made to the plaintiffs for the services of counsel on this appeal."

Conclusion.

From the record and the authorities in the field it is clear that the appellees have a valid copyright. Likewise, there can be no doubt that the appellants copied the protected work of the appellees. Their product virtually duplicated the appearance of the appellees' work, and it was not clearly erroneous for the trial court to so hold. It is submitted, therefore, that the judgment in this case should be affirmed.

Respectfully submitted,

RICHARD F. CARR,

WILLIAM E. MOORE,

Attorneys for Appellees.

No. 17721

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

SUNSET HOUSE DISTRIBUTING CORP., a corporation,
and AMERICAN COVER CO., INC., a corporation,

Appellants,

vs.

VERNA H. DORAN, WILLIAM E. DORAN and VERN H.
DORAN, dba PLASTI-PERSONALITIES, a sole proprietor-
ship,

Appellees.

Appeal From the United States District Court for the
Southern District of California, Central Division.

REPLY BRIEF OF APPELLANTS.

VAUGHAN, BRANDLIN, ROBINSON &

ROEMER,

RICHARD I. ROEMER, and

MARVIN A. FREEMAN,

411 West Fifth Street,

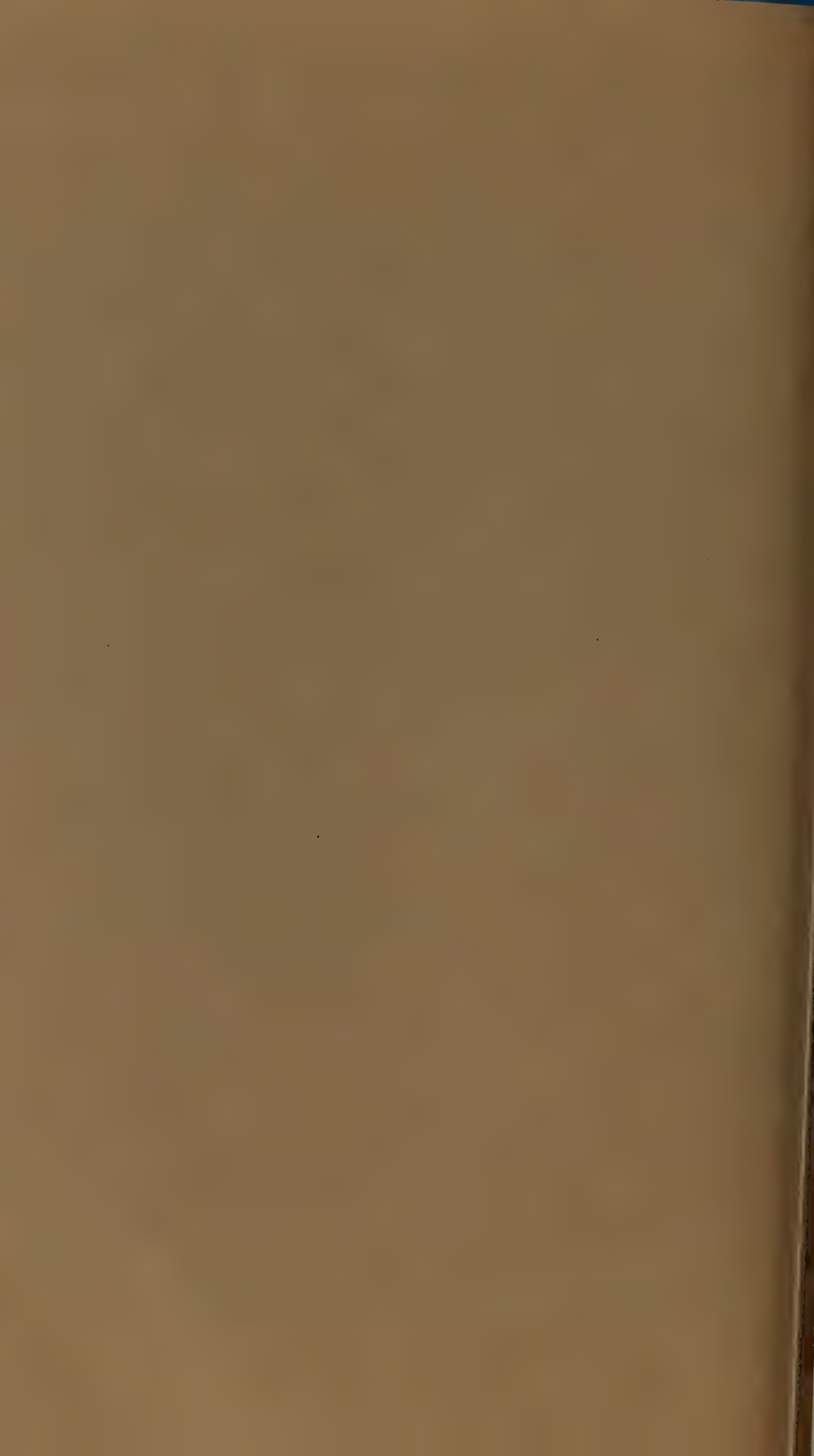
Los Angeles 13, California,

Attorneys for Appellants.

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Appellees.

Appeal From the United States District Court for the
Southern District of California, Central Division.

REPLY BRIEF OF APPELLANTS.

Preliminary Statement.

As we read it, appellees' "Statement of the Case" (Appellees' Br. pp. 2-6) adds nothing to the review of the *pertinent evidence* contained in appellants' Opening Brief. Appellees do, however, appear to emphasize the question of unfair competition, while at the same time acknowledging that appellants' contentions ". . . boil down to a single underlying inquiry: Were appellees entitled to obtain a valid copyright for their Santa Claus figure?"

Appellants agree with appellees' compact version of the issues. There are, however, some basic misconceptions revealed by Appellees' Brief, which we feel should be clarified at the outset. These misconceptions are:

(1) Appellees contend, at page 7, that appellants "primarily base their case upon the theory that no valid copyright can be obtained for a representation of Santa Claus. Appellants make no such broad contention, but do contend that the *idea* of a plastic, life-size Santa Claus, *per se*, including the common conception of Santa Claus' costume and physical appearance, other than a particular facial expression, cannot be withdrawn by copyright. (*Barton Candy Corp. v. Tell Chocolate Novelties Corp.*, D. C. N. Y. 178 Fed. Supp. 577.) In fact, appellants concede, at page 11 of their Opening Brief, that appellees could probably copyright their face mask and belt buckle, which were admittedly *not* copied by appellants. The end result of both products (appellants' and appellees' Santa Claus) is a life-size manikin. This similarity alone could not result in an infringement. In addition, both manikins achieve the common childhood conception of Santa Claus, which appellants submit cannot be monopolized by appellees. This leaves the basic distinguishing characteristic of all people—real or fictional—the face. The faces on the two Santa Clauses at issue are different, a fact acknowledged by appellees and the trial court, and confirmed by mere inspection. It is respectfully submitted that had appellees copyrighted their Santa Claus mask alone, and had appellants copied that mask, an infringement would be apparent. Here, however, appellees seek to support the copyright of their *entire* figure of Santa Claus.

(2) Appellees emphasis on the unfair competition aspect of this case is out of place and not an issue on this appeal. As stated in Appellants' Opening Brief, the trial court did not award appellees any damages for the alleged unfair competition and appellees indicate, at page 14 of their Brief, that the trial court committed an error in failing to award damages. It is to be noted that no cross-appeal was filed and, therefore, reference to these matters is wholly irrelevant. The fact that appellants have been enjoined from infringing appellees' copyright is in no way related to appellees' claim of unfair competition, but merely the usual judgment rendered in a successful lawsuit based on an infringement of a copyright.

(3) Appellees state, at page 11, that "minor modifications" in their design of the Santa Claus, made subsequent to the issuance of the copyright, in no way affect the validity of their copyright. It is significant that no cases are cited to support this contention. Appellees claim that they do not understand the pertinence of this argument. We think the pertinence is obvious.

The primary right conferred by a copyright is to give the owner the sole right to "copy" the "copyrighted work." If one copyrights a particular item, and then alters that item and copies the *altered* item, he is obviously not copying the copyrighted item, and hence loses the monopoly granted by a statutory copyright. 17 U. S. C. A., Section 1, clearly provides as follows:

"Any person entitled thereto, upon complying with the provisions of this title, shall have the exclusive right:

- (a) To print, reprint, publish, *copy* and vend *the copyrighted work.*" (Emphasis added.)

It is probable that appellees found no cases in support of their position because it is apparently unique for one to attempt to extend the protection granted by the copyright laws to include the right to copy altered versions of the copyrighted work.

(4) Appellees contend, at page 13, that questions 5 and 6, stated at pages 6-7 of Appellants' Opening Brief are new theories and that appellants never before have raised these questions. We respectfully refer appellees to page 150 of the Reporter's Transcript.

Appellees' Brief Itself Demonstrates the Lack of Merit in Their Position.

Appellees state, at page 8 of their Brief, as follows:

“Actually, there are many variations and representations of Santa Claus, and any *careful examination* of Christmas displays will reveal that each artist shows Santa Claus *slightly altered* from every other illustration of this legendary personage.” (Emphasis added.)

Appellants agree with this statement.

It is stipulated that appellants' version of Santa Claus is different from appellees' version. At page 10 of Appellees' Brief, they state:

“Of course, there are *minor variations* between the Santa Clause (*sic*) produced by appellants and that copyrighted by appellees.” (Emphasis added.)

Appellees contend that these “minor variations” are inconsequential, since it is not necessary to appropriate the entire copyrighted work to constitute an infringement. At page 11 of their Brief, appellees contend that there is no substance to appellants' argument that

appellees' copyright is not valid "because appellees made certain *minor modifications* in their design as the final production version. . . . Appellees made only the *slightest change* and sold the Santa Clause (*sic*) both with and without this *trivial variation*." (Emphasis added.)

When is a change not a change—a modification not a modification—an alteration not an alteration—or a variation not a variation?

On the one hand, appellees state that a "careful examination" reveals that all Santa Clauses are only "slightly altered" versions of each other. Appellees then attempt to mitigate their own "slightest change" and/or "trivial variation" of their version of Santa Claus as having no effect on the validity of their original copyrighted Santa Claus. By their own admission, their "slightly altered" Santa Claus becomes an entirely new creation, different from the one copyrighted, and, therefore, not protected by the copyright.

Turning to appellants' Santa Claus, admittedly containing "minor variations" from appellees' Santa Claus, or if you will—"slightest change", "trivial variation", "minor modifications", and/or "slightly altered"—do we not, by appellees' own statement, have yet another new creation? Appellees ask this court to hold that one person may make a "slightly altered" version of Santa Claus and not infringe; that appellees can make "minor modifications" in their Santa Claus and not affect their copyright; but that appellants can make "minor variations" and still infringe on a Santa Claus once removed from the copyrighted version. We submit that this is not only unsound logic but contrary to the law.

Appellants have admitted, for the sake of argument, that they appropriated appellees' idea, a three-dimensional life-size Santa Claus, and the functional aspects of the item, stuffing the plastic bag with papers to give dimension. However, it is elementary that the foregoing are not protected by a copyright. Appellants repeat their contention that appellees have not acquired a monopoly on the human form or the physical characteristics of Santa Claus and the various aspects of Santa Claus' costume. These are part of the public domain, borne of necessity by reason of the fact that the subject is substantially identical in the minds of all Americans. Any variation on this theme and we do not have a Santa Claus—but something else.

Conclusion.

We believe that the record in the case at hand, as well as Appellants' Opening Brief, gives no cause for appellees' statement that the "appeal is entirely spurious in nature, serving only as harassment, without any substantial basis." This is a glib, unsupported accusation designed to avoid the issues. Appellants believe they have presented to the court a sound, valid argument on the law. If this is the basis upon which appellees contend they are entitled to additional attorneys' fees, we respectfully submit that they have given no legal or intelligent basis for the court to make such an award.

There is no issue concerning unfair competition. The trial court failed to award appellees any damages therefor, and no question has been raised on this appeal. We respectfully point out that an action in unfair competition must be "joined with a substantial and related claim under the copyright . . . laws." (28

U. S. C. A. 1338(b).) At the time this action was filed, appellees had an action for unfair competition pending in the Superior Court for Los Angeles County against the appellants herein, and we respectfully submit that, if such a cause of action exists, that is where it belongs [T. 122-124].

Appellants earnestly contend that appellees' claim to a valid copyright on their entire representation of Santa Claus, and appellants' infringement thereof, as well as the judgment of the trial court, are in error. Appellants believe that they have clearly demonstrated that:

(1) The idea and functional aspects of appellees' Santa Claus are not protected by a copyright. The basic visual conception of Santa Claus—the costume—is part of the public domain and cannot be withdrawn by copyright. (*Barton Candy Corp. v. Tell Chocolate Novelties Corp.*, *supra*; *Mazer v. Stein*, 347 U. S. 201; 37 C. F. R. (1961) 202.6.)

(2) Changes made by the appellees in their purported copyrighted version of Santa Claus vitiate any rights they may have had by virtue of that copyright.

(3) Appellees admit that the only possible change in a Santa Claus is one that is "slight" and hence a "slight" or "minor" change is sufficient.

Assuming appellants copied anything, at most they copied part of an uncopyrighted work. Even on the assumption that the copyright is sustained by this Honorable Court, appellants only copied the idea and functional aspects of the item, which are clearly not protected. The only truly original parts of appellees' Santa Claus, the face and belt buckle, were not copied. Naturally, the end result is two items that look substantially

the same, since both stem from a common legendary source which is part of the public domain. As testified to by Mrs. Doran on cross-examination:

“Q. What sort of concept, then, had you? Did you have a specific concept, any specific concept when you commenced your program? A. Just my idea of Santa Claus.

Q. In other words, Santa Claus as we know him, more or less; is that correct? A. Yes.

Q. As close to the human form as your process would allow? A. That’s right, yes.” [T. 75.]

Appellants respectfully submit that there has been no infringement.

For the foregoing reasons, the judgment should be reversed with directions to dismiss the complaint.

Respectfully submitted,

VAUGHAN, BRANDLIN, ROBINSON &
ROEMER,

RICHARD I. ROEMER, and
MARVIN A. FREEMAN,

Attorneys for Appellants.

No. 17745 ✓
IN THE

*See also
Vol. 3188*

United States Court of Appeals

FOR THE NINTH CIRCUIT

EDWARD LEE DEBARDELEBEN and LUEVOIRN HENDRIX,
Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEES' BRIEF.

FRANCIS C. WHELAN,
United States Attorney,

THOMAS R. SHERIDAN,
*Assistant United States Attorney,
Chief, Criminal Division,*

JOHN R. SCHELL,
*Assistant United States Attorney,
600 Federal Building,
Los Angeles 12, California,
Attorneys for Appellee.*

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No. 17745

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

EDWARD LEE DEBARDELEBEN and LUEVOIRN HENDRIX,
Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEES' BRIEF.

I.

Statement of Jurisdiction.

Each appellant was adjudged guilty by the United States District Court for the Southern District of California of (1) illegally importing heroin (2) concealing and facilitating the concealment and transportation of the same heroin, both in violation of Title 21, United States Code, Sections 173 and 174 (3) illegally importing marihuana (4) concealing and facilitating the concealment and transportation of the same marihuana, both in violation of Title 21, United States Code, Section 176(a).

The offenses occurred in San Diego County, in the Southern Division of the Southern District of California. The District Court had jurisdiction by virtue of Title 18, United States Code, Section 3231.

This Court has jurisdiction to entertain this appeal from the judgment under Sections 1291 and 1294 of Title 28, United States Code.

II.

Statement of the Case.

Appellants, together with Gloria Ellis and Winston Brother Peters, were each charged in the first four counts of a five count indictment, returned on May 10, 1961, with illegally importing, concealing and facilitating the concealment and transportation of heroin and marihuana. Count One charged illegal importation of three ounces of heroin into the United States from Mexico by the four defendants. Count Two charged the four defendants with concealment and facilitation of concealment and transportation of three ounces of heroin knowing of the illegal importation. Count Three charged the four defendants with smuggling two marihuana cigarettes into the United States from Mexico and Count Four charged the four with concealing and facilitating the concealment and transportation of two marihuana cigarettes knowing they had been illegally imported into the United States from Mexico. Peters alone was charged in Count Five with failing to register as a convicted marihuana law violator when leaving the United States in violation of Title 18, United States Code, Section 1407.

Appellants and Peters entered pleas of not guilty to the first four counts and the matter proceeded to trial

by the court on August 29, 1961, the defendants having waived jury pursuant to the provisions of Rule 23(a) of the Federal Rules of Criminal Procedure. [R. T. 2-4.]* Gloria Ellis pleaded guilty to the first four counts prior to the trial of the other three defendants. [R. T. 2.]

On August 30, 1961, the Court found appellants and Peters guilty of all four counts and sentenced them. [R. T. 241, 255.] A timely notice of appeal was filed by appellants.

III. Specification of Errors.

Appellants have specified the following points on appeal:

1. The trial court committed error by not considering the testimony of Gloria Ellis, a co-defendant, put on by the Government, and who was impeached by prior inconsistent statements after the Government was surprised by her testimony.
2. The evidence was insufficient to convict the appellants.
3. The trial court committed error by interrupting the trial of appellants for the purpose of receiving evidence and sentencing a co-defendant who had pleaded guilty.

*R. T. refers to Reporter's Transcript of Proceedings.

IV.

Statement of the Facts.

At approximately 8:20 P.M. on the evening of April 18, 1961, a 1959 Ford Thunderbird automobile with four occupants entered the United States at San Ysidro, California, from Mexico. [R. T. 9.] The owner of the vehicle, appellant Debardeleben [R. T. 50], was in the back seat of the car, directly behind Gloria Ellis who was in the front passenger seat. Appellant Hendrix was driving and Peters was seated directly behind the driver. [R. T. 10, 21.]

Immigration Inspector Robert J. Herrenbruck asked each of the four occupants, in each other's presence, whether they had brought in anything from Mexico. They each replied no. Hendrix told Herrenbruck, in the presence of the four, that they had been in Mexico for about three hours and that they were "justing taking a ride". [R. T. 11.]

Hendrix, at the direction of Inspector Herrenbruck, drove the vehicle to the secondary inspection area where the four were questioned by Customs Inspector Charles E. Trumble. Inspector Trumble asked each of the occupants, in the presence of one another, whether they were bringing any merchandise from Mexico. Each answered no. Then Trumble asked the occupants of the vehicle the purpose of their trip to Mexico. Hendrix answered for the four by saying they had gone to Mexico for a short vacation. [R. T. 22.]

Following this conversation, Mr. Trumble requested Hendrix to open the trunk and became suspicious when Hendrix acted nervously and his hand shook when he opened the trunk of the vehicle. [R. T. 30.]

There followed a personal search of the appellants Debardeleben and Hendrix and Peters, by Inspector Trumble. Gloria Ellis was seated in the Customs Office while Trumble and Chief Inspector Anderson took the three male passengers into the search room one at a time. During the course of the search, Trumble asked the three males, out of the presence of each other, whether they had been with Gloria Ellis during the entire time they were in Mexico. They each stated definitely that they were and they had not been separated from Gloria Ellis at any time. [R. T. 23, 31.]

After the search of the male passengers, Customs Inspectress Annetta W. Lohman made a person search of Gloria Ellis and in her underclothing she found two marihuana cigarettes and three rubber contraceptives, each containing heroin. [R. T. 22, 32, 33, 36.]

Later in the evening, Debardeleben was interviewed by Customs Agent Fred Parkerson. Debardeleben stated that he had left his home in Compton, California between 12:30 and 1:00 o'clock on the afternoon of April 18th; that he drove his Ford Thunderbird to various places in Los Angeles for automotive service; that he then drove to Wilmington and Imperial Avenues in Los Angeles where he picked up Peters; that after driving around awhile Debardeleben went to Hendrix's house and picked him up; that from there Debardeleben went to the house of his girl friend, Gloria Ellis; that after being there for a few minutes, left for a ride in Los Angeles just to "blow the car out"; that they then proceeded to the Santa Ana Freeway, then directly to San Diego, and from there on to Tijuana. [R. T. 49, 50.]

Debardeleben's testimony at the time of trial was inconsistent with his statements of April 18, 1962. Instead of leaving his girl friend's house for a ride in Los Angeles and then on to Mexico as he had told Agent Parkerson on April 18, he testified that he went to her house and before they left her house, she asked him to go to Tijuana and he assented. [R. T. 160.] He specifically denied telling anyone that he had been with Gloria Ellis during the entire visit to Mexico. [R. T. 164.]

Debardeleben testified he had known Gloria Ellis for almost a year before the trip to Tijuana; had been "fooling around" with her; saw her constantly during the month preceeding the trip to Tijuana; and had been with her the night before the trip. [R. T. 169, 170.]

Debardeleben testified he had known Peters for two years and had seen him the day before the trip. He testified he had known Hendrix for three years and had seen him a day or two before the trip. [R. T. 169, 170.]

As far as pertinent herein, Debardeleben testified that before each of the passengers met on the 18th, none of them had planned to meet one another on that day; that the trip to Tijuana was entirely spontaneous; that even after he had decided to go to Tijuana at the request of Gloria Ellis, he never told Hendrix they were going to Mexico nor asked Hendrix if the wanted to go; that although his newly purchased Thunderbird was leaking transmission fluid, he had no objection to letting Peters or Hendrix drive the car from Los Angeles to Tijuana, Mexico and back, at the mere request of Gloria; that before getting on the freeway in

Los Angeles he stopped and Peters took the wheel; that he slept until they arrived in Tijuana around 6:00 P.M. when the other passengers left the car at a gasoline station; that he went back to sleep until Peters stopped at a restaurant; that he then went into a restaurant and ate with the other males for twenty to thirty minutes; that during this time Gloria Ellis was separated from them; that he again went to sleep and did not wake up until Hendrix, who was now driving, was returning to the border, at which time he requested Hendrix to stop so he could go to a restroom; and that he knew nothing of the narcotics found on Gloria Ellis' person. [R. T. 157-186.]

Following the interview of Debardeleben on the 18th, Parkerson interviewed Peters and then Hendrix. The original version of the trip given by Hendrix was that he was picked up by Debardeleben and Peters in Debardeleben's Thunderbird at his home in Los Angeles; that from there they went over to Gloria Ellis' house; that after being there for awhile they left with Debardeleben driving, then they proceeded to the Santa Ana Freeway and on to Tijuana; that he was asleep when they arrived in Tijuana and he woke up once in Tijuana when Gloria Ellis was out of the car; that the next time he woke up was near the Caliente Race Track where Peters had stopped the car beside the road; that he then got up, took the wheel and drove back towards the border, stopped at a 76 gasoline station where he purchased two dollars worth of gasoline, and then went to the border. [R. T. 54.]

At a second interview a few days later, Hendrix told substantially the same story as he had previously giv-

en. He stated that he had been picked up by Peters and Debardeleben at his house and from there they proceeded to Gloria Ellis' house; that from there they went for a ride over town and got on the freeway south and on to Tijuana; that they had stopped enroute at a drive-in where Peters took over the wheel from Debardeleben. [R. T. 55.]

Hendrix also testified in his own behalf inconsistently with his statements to the Customs officials. He did not remember whether or not he had told Inspector Trumble he had not been separated from Gloria Ellis during the trip to Mexico. [R. T. 150.] Instead of stopping for gasoline on the way to the border, after the trip to Mexico, as he first related to Parkerson, Hendrix testified that he had purchased the gasoline when the party first arrived in Tijuana. [R. T. 132.] Instead of being asleep with the exception of a time when Gloria Ellis was out of the car and when they were near the race track where he took over the wheel, he testified that the other males were in a restaurant for twenty or twenty-five minutes and Ellis was not with them. [R. T. 110, 111.] Instead of waking up near the race track, he testified that the party left the restaurant and Peters drove around town a little and then out to the race track where he was asked to drive. [R. T. 111.]

In direct contradiction with Mr. Trumble's testimony that Hendrix opened the trunk of the car, Hendrix testified that Trumble took the keys from the ignition of the car and opened the trunk himself. [R. T. 115.] He also denied telling Trumble the party had gone to Mexico for a short vacation. [R. T. 115, 116.] Hen-

drix also testified the party had made no arrangements to meet before the trip and that it was entirely spontaneous. Moreover, he never knew that the party was going to Tijuana until he crossed the border, and never asked anyone where they were going nor did anyone tell him. [R. T. 130, 131.] He stated he had known Peters, Ellis, and Debardeleben for two to three years, and the last time he had talked to either Debardeleben or Ellis was three weeks before the trip. [R. T. 120, 121.]

In effect, his testimony was that he was sitting at home watching television when Peters and Debardeleben arrived and asked if he would like to go for a ride; that he agreed and the three went over to Ellis' house and without inquiry he rode with them to Tijuana; that he first learned they were going to Tijuana when they crossed the border; that he purchased gasoline just after they arrived in Mexico; that the three males went to a restaurant while Gloria Ellis was absent for twenty or twenty-five minutes; that Peters drove the car around town for a while and then out to the race track where he took over the wheel; that he headed back towards the border, stopping at a service station at the request of Debardeleben.

Hendrix as well as Debardeleben repeatedly testified that Debardeleben was asleep almost the entire trip from Los Angeles to Mexico and while in Mexico. Significantly, on direct examination, Hendrix testified that when the party first stopped in Tijuana at a service station, he stayed at the vehicle and paid for the gasoline while Ellis and Peters went to a restroom and Debardeleben remained in the car. [R. T. 108, 109.] On

cross-examination on the first day of the trial, Hendrix testified that he paid for the gasoline because Debardeleben was asleep. [R. T. 132.] When cross-examination was resumed on the second day of the trial, Hendrix testified Debardeleben got out of the car when they first arrived in Tijuana. [R. T. 151.]

During its case in chief, the Government called Gloria Ellis as its witness. As her testimony progressed, the Government claimed surprise and asked leave of the Court to treat Ellis as a hostile witness. [R. T. 67.] Mr. Parkerson testified to prior statements made by the witness that were inconsistent with her testimony. His testimony was admitted solely for the purpose of laying a foundation for the claim of surprise, and the Court expressly ruled that it was not admissible against the defendants. [R. T. 69.] After successfully laying foundation for the claim of surprise, the Court granted the Government's request to examine Ellis as a hostile witness. [R. T. 74.] Thereafter Miss Ellis denied making the inconsistent statements and continued to testify in opposition to her prior statements made out of the presence of the defendants. [R. T. 74-80.]

Upon the completion of Ellis examination, the Court advised counsel for appellants that Parkerson's testimony concerning his interviews with Ellis had been admitted solely for the purpose of laying foundation for the claim of surprise and not as evidence against the appellants nor as evidence to impeach Ellis. The Court then inquired whether defense counsel would stipulate that the same testimony could be used for purpose of impeaching Ellis without the necessity of Parkerson re-

peating the testimony. All counsel so stipulated. The Court then admitted Parkerson's testimony for impeachment purposes only in connection with the testimony given by Ellis, an adverse witness. [R. T. 93-95.]

Mrs. Lohman was recalled as a witness to the prior inconsistent statements made by Ellis and again the Court received the testimony only for the purpose of impeaching the hostile witness Ellis. [R. T. 95.]

Before finally closing the case and after the Government offered no rebuttal, the Court announced it would continue the case until 1:30 in the afternoon at which time he desired to have Ellis present. [R. T. 188.] After the noon recess, the Court indicated in the presence of Ellis' counsel that he proposed to sentence her. Her counsel requested permission to examine Mr. Parkerson concerning her prior statements to him, and with the express ruling that the testimony would not be admissible against the defendants on trial, the Court permitted Ellis' counsel to examine Parkerson. [R. T. 193.] After repeatedly announcing to appellants' counsel that the testimony offered by Ellis' counsel was not evidence in the case on trial and would be considered only in connection with the sentencing of Gloria Ellis in her case, the Court advised appellants' counsel that they and appellants were free to leave the courtroom while he handled Ellis' case. [R. T. 193-196.] On at least three other occasions during the sentencing procedure of Gloria Ellis, the Court advised appellants' counsel that no part of the proceedings were admissible against appellants. [R. T. 206, 207, 223.]

Following the sentencing of Ellis, the Court asked her if she wanted to change her testimony to which she

replied no. Thereupon both sides rested. [R. T. 230, 231.]

After argument was heard on both sides, the Court found appellants guilty. The Court considered Ellis as an impeached witness, but did not consider the impeaching testimony as evidence against appellants. The Court did evaluate her testimony in reaching its finding. [R. T. 239-241.]

V.

Argument.

A. Court Did Consider Testimony of Ellis; Government Not Bound by Testimony of Hostile Witness.

Ellis was thoroughly impeached by properly admitted evidence as to her prior inconsistent statements. The testimony was admitted at first, for the purpose of laying a foundation to show a genuine claim of surprise and then, later, for the sole purpose of impeaching her as a hostile witness after a futile effort to elicit the truth from her.

This Court has fully adopted the recognized exception to the rule against impeaching one's own witness when there is a genuine claim of surprise.

Beiber v. United States, 276 F. 2d 709, 712 (9th Cir. 1960);

Stevens v. United States, 256 F. 2d 619, 622 (9th Cir. 1958);

Weaver v. United States, 216 F. 2d 23, 25 (9th Cir. 1954);

Gendelman v. United States, 191 F. 2d 993, 996 (9th Cir. 1951), Cert. Denied, 342 U. S. 909 (1952).

Appellants correctly state that the accepted rule is that evidence used to impeach is not substantive evidence because of the hearsay rule. See footnote 9 at page 623 of this Court's opinion in *Stevens, supra*, setting forth the arguments of Wigmore and McCormick in support of accepting such evidence as substantive evidence, and describing the modification of the rule when there is indication in the record that the recalcitrant witness "adopts" the prior statements. In the instant case, as in *Stevens*, the witness cannot be said to have adopted her earlier statements so as to invoke the modification of the rule.

While the Courts have heretofore found the hearsay rule controlling, the arguments of these text writers should be carefully considered. The object of all judicial inquiry is the ascertainment of the truth. It is patent from the record in this case, that Gloria Ellis' statements to Parkerson immediately after the incident contained the seeds of the truth, whereas her testimony on the stand was the fruit of a deliberate contrivance by Ellis and the appellants to conceal the truth from the trier of fact. Why shouldn't the trier of fact be permitted to subject prior inconsistent statements to the same test of credibility as any other evidence, and if it passes the test then accept it. Keeping in mind that the witness is available for cross-examination by the party against whom the statements are offered, doesn't the advantage of having available additional evidence to aid in the determination of the truth outweigh the possible dangers from its use.

By urging this Court to take the bold step of upsetting tradition, the Government is not conceding that

without the prior inconsistent statements there was not substantial evidence to support the conviction of appellants. On the contrary, the evidence shrieks the guilt of appellants notwithstanding its circumstantial nature.

Exception is taken to appellants' contention that the Government is bound by the testimony of Ellis, though impeached, so far as it is consistent with other phases of the case. What other phases of the case? The impeached testimony of the appellants? What appellants urge is that even if the Government's witness is properly impeached and shown to testify falsely, the same unbelievable testimony of defense witnesses destroys the Government's impeaching testimony though believed by the trier of fact. Two lies make the truth!

The correct statement of the rule is that the trier of fact can disbelieve any of an impeached witness' testimony except that which is corroborated. *Weaver v. United States, supra*; *United States v. Marks*, 274 F. 2d 15, 19 (7th Cir. 1959). Certainly other impeached testimony is not corroboration. The testimony of Ellis on direct and on cross-examination was received by the Court and after consideration rejected. [R. T. 241.] It was impeached and the trier of fact is the sole judge of the credibility of witnesses and the weight to be given to any witnesses testimony, if any at all, whether the trier of fact be Court or jury. *Henry v. United States*, 215 F. 2d 639 (9th Cir. 1954); *Pasadena Research Laboratories v. United States*, 169 F. 2d 375, 380 (9th Cir. 1948); Cert. Denied 335 U. S. 853 (1948). In the latter case, this Court stated:

"To clarify the matter for once and for all, we wish to restate plainly that this court is not con-

cerned with the *weight* of testimony adduced below. 'Questions of credibility were for the trial court.' " (Citations omitted.)

It is plain that the Court did not base the conviction of appellants on evidence of the prior inconsistent statements of Ellis. The Court repeatedly stated it was not being received as substantive evidence against appellants. In pronouncing its finding, the Court expressly stated that it did not use this evidence in reaching its decision. [R. T. 239-241.] It is presumed that the trial judge considered only competent evidence in arriving at his judgment.

Benchwick v. United States, 297 F. 2d 330, 336 (9th Cir. 1961);

Pasadena Research Laboratories, supra, at p. 385;

Weaver v. United States, supra, at p. 25;

United States v. Morris, 269 F. 2d 100, 102 (2d Cir. 1959); cert. denied, 361 U. S. 885 (1959).

It is sufficiently clear that the Court rejected all of Ellis' testimony after considering it for its probative worth. If not, appellants' contention that they should know what was the position of the Court is answered by Rule 23(c) of the Federal Rules of Criminal Procedure. The rule provides only for a general finding absent a request for special findings. This record is barren of any such request on the part of appellants.

B. Evidence Amply Supports Trial Court's Finding of Guilt.

A conviction should be sustained on appeal if there is substantial evidence, taking the view most favorable to the Government to support it. In considering the facts the reviewing court must grant every reasonable intendment in favor of appellee.

United States v. Glasser, 315 U. S. 60, 80 (1942);

Arena v. United States, 226 F. 2d 227, 229 (9th Cir. 1956), Cert. Denied, 350 U. S. 954 (1956).

Disregarding entirely any testimony of Gloria Ellis and any testimony concerning her prior inconsistent statements, the remaining circumstantial evidence amply supports the trial court's finding of guilt. Since the trial court rejected her testimony as being entirely false, the remaining evidence in the case can be treated as if she had never been called and no impeaching testimony came in.

A brief review of the evidence demonstrates that the appellants were engaged with Gloria Ellis in a common scheme and plan to illegally import the marihuana and heroin, and that they aided and abetted the importation of the marihuana and heroin.

Appellants and Gloria Ellis entered into the United States from Mexico and upon search of the person of Gloria Ellis the marihuana and heroin were found. There is no question that the heroin and marihuana were illegally imported. A federal crime had been made out. There is no problem of jurisdiction as was found

in *Hernandez v. United States*, 300 F. 2d 114 (9th Cir. 1962), cited by appellants. If appellants knew Gloria Ellis had the narcotics in her possession when she crossed the line, the knowledge of illegal importation was made out.

Did the appellants knowingly aid and abet Gloria Ellis in the illegal importation of the contraband? There is not the slightest doubt that each of the appellants aided and abetted Gloria Ellis in the commission of all of the four offenses upon which they were tried. Debardeleben furnished the automobile that carried Gloria across the line. Hendrix drove the automobile that carried Gloria across the line as well as supplied the gasoline. If they knew she was carrying the contraband when she entered the United States they each facilitated the concealment and transportation of the contraband by telling Inspector Hereenbruck that they had nothing to declare.

What substantial evidence is there to show that they each knew Gloria was carrying the contraband on her person? Consider first Debardeleben. Before the contraband was discovered, he told Inspector Trumble that he had been with Gloria the entire time he was in Mexico. If he was with her the entire time, he must have been with her when she acquired the narcotics and with her when she secreted them in her under-clothing.

When first interviewed by Agent Parkerson he stated that after picking up Gloria they left for a ride around town. On the witness stand, he contradicted himself by saying that Gloria asked him to go to Tijuana before they left her house. During his first interview

he made no mention of being separated from Ellis, nor did he mention sleeping almost the entire trip. He found it necessary to deny telling Inspector Trumble that they had been together at all times during the trip to Mexico. It is obvious that the first story the appellants had contrived in the event they were stopped was to assert they had been together at all times. Once the contraband was discovered on Ellis then the story didn't sound too well so he fabricated another story. The conduct of the defendant on the witness stand in telling the improbable story that the trip was entirely spontaneous; that Hendrix wasn't told that they were going to Tijuana; that he would permit another person to drive his newly purchased automobile all the way from Los Angeles to Tijuana despite its leaky transmission, all showed a consciousness of guilt. The more reasonable inference is that because of his relationship with Ellis he was able to prevail upon her to "mule" the contraband across the border for him with the idea that perhaps a woman would be less likely to be searched.

It becomes even clearer when it is considered that Hendrix acted nervously and his hand shook when opening the trunk to the car. Surely Hendrix was aware of the contraband. Yet Debardeleben did not take pains to separate himself from Hendrix during the trip by his testimony.

Concerning Hendrix's knowledge, in addition to the inconsistent statements to Parkerson and those made at the trial, there is the fact that he acted nervously and his hand was visibly shaking when he opened the trunk of the vehicle for inspection. On the stand to avoid the consequences of this damaging evidence he

stated that the Inspector took the keys from the ignition and opened the trunk himself. He too stated when first interviewed before the contraband was found, that he had not been apart from Gloria Ellis while in Mexico. His desire to avoid any participation in the plan to go to Tijuana prompted him to relate the absurd story that he didn't realize he was going to Tijuana until he crossed the border. While Debardeleben testified he had spoken with Hendrix a day or two before the trip, Hendrix testified he hadn't seen Debardeleben for three weeks before the trip. It is no wonder that the Court disregarded his story completely as he had Debardeleben.

Taking all the above circumstances, it must be concluded that a reasonable minded trier of fact could find beyond a reasonable doubt that the appellants knowingly aided and abetted Ellis in bringing in the contraband.

The circumstances in this case are just as strong, if not stronger than the evidence that warranted affirmance in *Eason v. United States*, 281 F. 2d 818 (9th Cir. 1960). There the contraband was found secreted behind the dashboard of Eason's car and the two occupants of the car were both convicted of smuggling. No inconsistent statements were made there, but as here the occupants of the car acted nervously when questioned by the inspector. The defendants' explanation of the trip sounded more plausible than the one given by appellants here. They argued that the possession could have been in either of them, however this Court concluded that the evidence of close friendship, joint venture and general conduct was sufficient

for the jury to find that possession was jointly in the defendants.

Although appellants argue that there is no evidence from which the trial court could have concluded that there was a common scheme or plan, it is respectfully submitted that from all the circumstances, including the inconsistent statements, the Court could have concluded nothing else.

It was clearly a joint venture. Debardeleben furnished the car and the "mule," Hendrix did the driving across and purchased the gasoline. Appellants both stated when interviewed separately before the contraband was found that he had not been apart from Ellis. At the time of trial, both told the same story of being absent from the girl for twenty to twenty-five minutes in a restaurant. Could the trier of fact possibly conclude that both appellants had forgotten their trip to the restaurant when interviewed a short time afterwards and then at the time of trial months later both remember all the details of each other's activities. There were only two logical conclusions the trial court could have reached when considering the statements that each made about being with Gloria at all times. First, either they had not been apart and must have been with her when she obtained the heroin, or second, that they had agreed in advance to tell this to the inspectors should they be questioned.

C. There Was No Error in Suspending the Trial to Sentence a Co-Defendant.

Appellants here urge that the Court relied on the impeachment testimony to convict them. This contention has been answered previously in the discussion of

the first two specifications of error. To support their contentions appellants have extracted a portion of the Court's comments beginning on page 233 of the Reporter's Transcript. Immediately preceding the quoted remarks, the Court stated it could not consider the impeaching testimony. Later, the Court again stated he was not considering the impeaching testimony, and expressly found the circumstantial evidence to be enough without resort to the impeaching testimony. [R. T. 239-241.]

VI.
Conclusion.

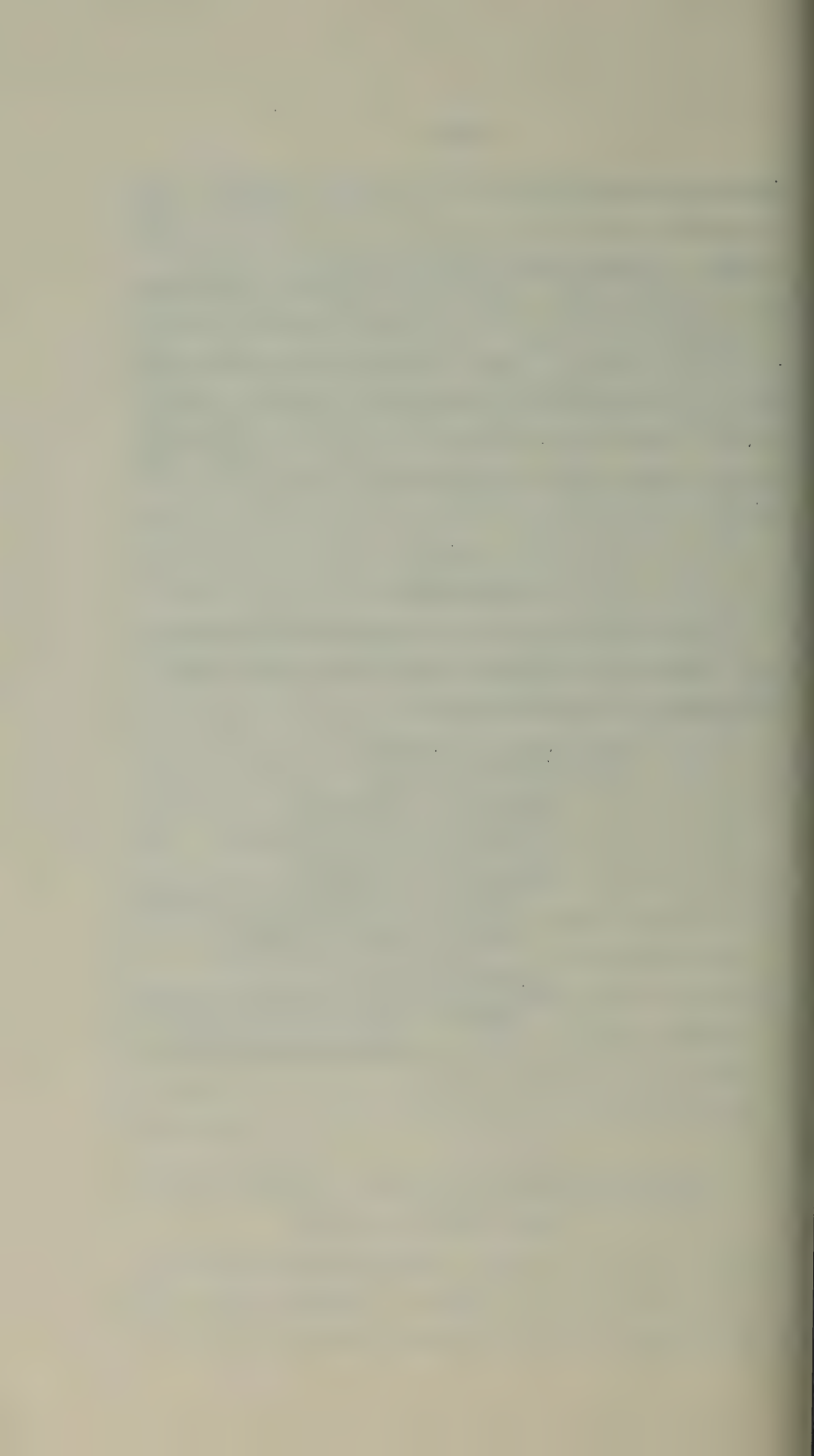
For the foregoing reasons, it is respectfully submitted that the District Court's finding of guilt should be affirmed as to both appellants.

Respectfully submitted,

FRANCIS C. WHELAN,
United States Attorney,

THOMAS R. SHERIDAN,
*Assistant United States Attorney,
Chief, Criminal Division,*

JOHN R. SCHELL,
*Assistant United States Attorney,
Attorneys for Appellee.*



No. 17747 ✓

IN THE

United States Court of Appeals
FOR THE NINTH CIRCUIT

NORTHWESTERN MUTUAL INSURANCE COMPANY,
Appellant,
vs.

MILTON MICHAELSON, *et al.*,
Respondents.

APPELLANT'S OPENING BRIEF.

FILED

SEP 24 1962

BOLTON, GROFF & DUNNE,
210 West Seventh Street,
Suite 935,
Los Angeles 14, California,

*Attorneys for Appellant Northwestern
Mutual Insurance Company.*

FRANK E. SCHMID, CLERK

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No. 17747

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

NORTHWESTERN MUTUAL INSURANCE COMPANY,

Appellant,

vs.

MILTON MICHAELSON, *et al.*,

Respondents.

APPELLANT'S OPENING BRIEF.

Statement of the Action.

This action was commenced by the plaintiffs, Milton Michaelson and Yetta Michaelson, against the defendants, Northwestern Mutual Insurance Company, hereinafter referred to as "Northwestern", and the Niagara Fire Insurance Company, hereinafter referred to as "Niagara".

Subsequently, by stipulation, the action was settled with respect to the plaintiff assureds by an advance in the sum of \$16,000.00 subject to appropriate provisions of the stipulation whereby jurisdiction was retained by the court for the purpose of resolving the issue of the liability of the respective defendant insurance companies.

The trial court entered judgment holding that both defendant insurance companies' policies applied and each were responsible for one-half of the loss.

Statement of Facts.

The action was commenced by the Plaintiffs in the United States District Court, Southern District of California, Central Division, by reason of diversity of citizenship between the plaintiffs and defendants, and the court found as true the existence of the diversity and the fact that the controversy exceeded the sum of \$10,000.00. [Finding of Fact I and II.]

On July 17, 1959 fire damaged property belonging to Milton Michaelson and Yetta Michaelson to the extent of \$16,000.00. [Finding of Fact II.]

The Northwestern had issued their policy no. 1003-8589 to Milton Michaelson and Yetta Michaelson with respect to property located at 5887 Blackwelder Street, Culver City, California, for a term commencing May 13, 1958. The amount of the policy was \$19,000.00 with a 90% average clause and provided for a loss payable to the Bank of America, National Trust and Savings Association. [Finding of Fact IV.]

The Niagara had in force, by reason of a binder, insurance coverage for Milton Michaelson and Yetta Michaelson with respect to property located at 5887 Blackwelder Street, Culver City, California, with a limit of \$19,000.00 for a term of three years commencing June 15, 1959. Said policy provided for a loss payable to the Bank of America, and for the 90% average clause. [Finding of Fact V.]

Ernie Peters, hereinafter referred to as "Peters", was a licensed and authorized agent for the Niagara and also for the Northwestern. [Rep. Tr. p. 26.]

Prior to June 15, 1959 the Northwestern advised Peters that they desired to have the Northwestern pol-

icy cancelled. Peters so advised Michaelson. [Rep. Tr. p. 28, lines 3 to 16; p. 9, lines 2 to 4; p. 13, line 25; p. 14, lines 1 to 13; p. 15, lines 1 and 2.] Michaelson agreed that the insurance coverage in Northwestern could be cancelled and rewritten and Peters bound coverage in the Niagara for the same amount and in accordance with the same terms and conditions as those contained in the Northwestern policy. Peters prepared an application with respect to the coverage that was bound and prior to June 15, 1959 forwarded this application to the Niagara office. [Rep. Tr. p. 30, line 18, to p. 31, line 4.] The Niagara delayed issuing the formal policy and at the time of the fire, July 17, 1959, the formal policy had not been issued. [Rep. Tr. p. 32, lines 4 to 17.]

Up to the time the fire occurred neither Peters nor anyone else had been advised by the Niagara that the Niagara was not going to issue a policy. [Rep. Tr. p. 33, lines 3 to 6.]

Mr. Michaelson was charged for the Northwestern policy only until June 15, 1959, and he was given a return premium on a pro-rata basis as of that date. [Rep. Tr. p. 38, lines 12 to 17.]

Issues on Appeal.

The Appellant, Northwestern, asserts that the following Findings of Fact and Conclusions of Law are not supported by the evidence, the record, or the law:

Finding No. IV. "It is true that on July 17, 1959 there was in force a policy of insurance between defendant Northwestern Mutual Insurance Company and the plaintiffs insuring plaintiffs against loss or damage by fire in an amount not exceeding \$19,000.00."

Finding No. VI. "It is not true that the policy of insurance issued by defendant Northwestern Mutual Insurance Company was cancelled prior to the loss and damage sustained by plaintiffs."

Finding No. VII. The following portion of Finding of Fact No. VII: "It is true that each of the defendants, to wit, Northwestern Mutual Insurance Company and Niagara Fire Insurance Company, is liable to plaintiffs for one-half of the loss sustained by plaintiffs, * * *".

Finding No. VIII. "Neither of the defendants is liable to the other defendant in any sum whatsoever."

Finding No. IX. This Finding states that it incorporates as a finding of fact the court's Memorandum of Decision dated October 4, 1961, and the Appellant asserts as a Statement of Point on Appeal each and all portions of said Memorandum of Decision inconsistent with the Points on Appeal hereinbefore set forth in this Statement of Points.

The following Conclusion of Law is not supported by the evidence and is contrary to the evidence:

"* * * that neither defendant is liable to the other defendant for any sum whatsoever, * * *"

ARGUMENT.

The Appellant submits that by reason of the following premises the Findings of Fact, Conclusions of Law and Judgment of the trial court are in error:

A. That the assured, Michaelson, and the Northwestern reached a cancellation by mutual agreement.

B. That in any event the Northwestern policy was cancelled by operation of the principle of insurance law, cancellation by substitution.

C. That the cancellation in this instance was not contingent upon:

(a) The return of the Northwestern policy.

(b) Any act on the part of the loss payee Bank of America.

A. That the Assured, Michaelson, and the Northwestern Reached a Cancellation by Mutual Agreement.

“Obviously, there is no sound reason why a policy of insurance, as any other contract, may not be cancelled or rescinded through an agreement of both parties to the contract. Otherwise, an insurance policy cannot be cancelled by the insurer except by virtue of a power granted by statute, or reserved to the company by a stipulation in the policy.”

83 A. L. R. 299.

“Sec. 293. By Agreement.—Ordinarily, cancellation of an insurance policy may be effected by mutual consent, independent of the terms of the policy, at any time before occurrence of the event insured against. * * * ”

27 Cal. Jur. 2d pp. 792, 793.

Peters, agent for the Northwestern, arranged with Michaelson for cancellation of the Northwestern policy by mutual agreement. Michaelson testified as follows:

“He (Peters) mentioned that Northwestern intended to cancel out * * * by mutual agreement as far as I recall.” [Rep. Tr. p. 9, lines 2 to 4.]

There was introduced into evidence the statement of the assured, Michaelson, which included the following:

“On the day before the fire I saw my agent, Mr. Peters, and he stated he had placed coverage with Niagara Fire to replace the coverage expiring or being cancelled in the Northwestern Mutual Insurance Company. My agent Peters advised me that the Niagara Insurance Company was on the risk * * *” [Rep. Tr. p. 14, lines 5 to 10.]

The Court struck from the testimony of Peters this statement with respect to the transaction with Michaelson:

“I believe so, yes. It was agreed that we would rewrite the coverage.” [Rep. Tr. p. 28, lines 23 and 24.]

The Appellant submits that this was erroneously stricken as it went to the establishment of the fact that Michaelson and Peters reached an agreement with respect to the Northwestern policy.

B. That in Any Event the Northwestern Policy Was Cancelled by Operation of the Principle of Insurance Law, Cancellation by Substitution.

The rule on cancellation of insurance by substituting new insurance for existing insurance is stated in 27 Cal. Jur. 2d 793, Insurance §293:

“Generally, the procurement of new insurance with intent that it shall take the place of existing insurance, and with no intent to thereby acquire additional insurance, constitutes an effective voluntary cancellation of the existing insurance, in which case the insured may not recover under both policies, despite physical possession, by the insured or his agent, of the original policy, and though the premium return, due on cancellation of the original policy, has not been made at the time the loss occurs.”

This rule is also expressed in 45 C. J. S. 118, Insurance §458, as follows:

“*Obtaining new insurance.* It has been held that the act of insured in procuring new insurance on property for a term commencing before expiration of existing insurance thereon, and with intent to have the new insurance replace the existing insurance and without intent to acquire additional insurance, constitutes in legal contemplation a voluntary cancellation of the existing insurance.”

A similar statement appears in 6 *Appleman Insurance Law and Practice* 791, §4225, where the author states:

“Procuring new insurance to commence before the expiration of existing insurance, without an intent to acquire additional insurance, constituted a voluntary cancellation by the insured.”

The subject is again touched upon in the same volume, page 769, §4196, as follows:

“The substitution by an agent of a new policy for the old one, with the consent of the insured, operated to release the first insurer from liability, even though its policy had not been formally cancelled at the time of the loss.”

Among the cases holding that substitution of new insurance for old insurance effects a cancellation of the old insurance are:

Strauss v. Dubuque Fire & Marine Ins. Co. (1933), 132 Cal. App. 283, 22 P. 2d 582;

Stevenson v. Sun Insurance Office (1911), 17 Cal. App. 280, 119 Pac. 529;

Bache v. Great Lakes Ins. Co. (1929), 151 Wash. 494, 276 Pac. 549;

White v. Ins. Co. of N. Y. (R. I. 1899), 93 Fed. 161;

Pagliero v. Merchants Fire Assur. Corp. (9 C. A. 1948), 169 F. 2d 373;

Wells Petroleum Co. v. Fidelity-Phenix Fire Ins. Co. (D. C. Ill., 1954), 121 Fed. Supp. 739.

The facts in the *Wells Petroleum* case are similar to those in the case at bar. Wells Petroleum had been insured by six different companies in amounts totalling

\$30,800. Its insurance broker had obtained this insurance through a general agency, Homer Gwinn & Company. The broker ceased doing business with this agency and decided to replace these six policies with six policies in six other companies. On 3 August 1950 he obtained such new insurance, totaling \$31,000. The broker and the general agency could not agree as to whether the insured should receive return premiums calculated on a pro rata basis or a short rate basis. On 9 November 1950 the insured sustained a severe fire loss. The insured still had possession of the old policies at that time. The companies which had issued the new insurance policies adjusted the loss on the basis that the old policies were still in force and effect and should pay, roughly, one-half of the loss. They agreed, however, that if the old insurance had been cancelled prior to the loss, the adjustment would be reopened and the new insurance would pay the entire loss. Suit was filed against the old companies only. At the close of plaintiff insured's case, the defendants moved for a directed verdict and the motion was granted.

The court said, 121 Fed. Supp. 739, at pp. 742-743:

"It clearly appears from the plaintiff's evidence that it was not the intention of either the broker, Baal, or the insured, plaintiff herein, at any time prior to the occurrence of the fire to obtain additional insurance coverage upon the property and rather that it was their clear intention to replace the original policies issued through the Homer Gwinn & Company agency and to substitute therefor new policies issued through the American Insurance Agency, Inc. There was no desire on the part of the plaintiff to vary its original instructions to its

broker, Baal; namely, to procure coverage upon the property in the approximate sum of \$32,000. It was not their intention to double this coverage or to increase it in any manner.”

The court, in the *Wells Petroleum* case, also pointed out that no formal or written notice of cancellation by the insured is required. The court then said, 121 Fed. Supp. 739, at 746:

“For the foregoing reasons it is the Court’s opinion that the policies of insurance herein sued upon were effectively cancelled on August 3, 1950, prior to the date of the fire, November 9, 1950, by virtue of replacement and substitution; that the physical possession of said policies in the hands of the plaintiff on the date of the fire and the fact that the unearned premium, whether pro-rata or short rate, had not yet been returned by the defendants to the claimant on the date of the fire is immaterial and the Court was therefore compelled to grant the motion of each of the defendants for directed verdict.”

The court fixed the date of cancellation in *Wells Petroleum* as 3 August 1950. This is significant as the Homer Gwinn general agency was not notified until some days later, and the old policies were not returned until after the fire.

The Court found and the record amply supports the Findings of Fact that the Niagara had in force insurance coverage effective June 15, 1959 in the same amount as that specified in the Northwestern policy. [Finding of Fact V.]

Michaelson did not intend to have coverage both in the Northwestern and the Niagara. [Rep. Tr. p. 24, lines 5-14.]

Peters did not intend that there be coverage existing in both the Northwestern and the Niagara. [Rep. Tr. p. 33, lines 17-20.]

The Niagara coverage was written for the purpose of rewriting the Northwestern coverage effective as of June 15, 1959. [Rep. Tr. p. 28, lines 12-16.]

Michaelson knew that Peters was arranging for other insurance [Rep. Tr. p. 16, lines 16-20], and knew before the fire that the Northwestern coverage had been replaced with the Niagara. [Rep. Tr. p. 14, lines 5-10.]

The coverage rewritten by Peters in the Niagara was the same as the coverage specified in the Northwestern. [Rep. Tr. p. 73, line 25; p. 74, lines 1-10.]

Peters returned a pro-rata portion of the premium with respect to the Northwestern policy to Michaelson who was charged for coverage to June 15, 1959. [Rep. Tr. p. 38, lines 12-17.]

C. That the Cancellation in This Instance Was Not Contingent Upon:

(a) The Return of the Northwestern Policy.

As stated in 27 Cal. Jur. 2d 793, Section 293, *supra*:

“Generally, the procurement of new insurance with intent that it shall take the place of existing insurance, and with no intent to thereby acquire additional insurance, constitutes an effective voluntary cancellation of the existing insurance, *in which case the insured may not recover under both policies, despite physical possession, by the insured*

or his agent, of the original policy, and though the premium return, due on cancellation of the original policy, has not been made at the time the loss occurs.” (Emphasis added.)

The record is devoid of any condition in the transaction between Michaelson and Peters with respect to the termination of the Northwestern coverage being contingent upon the return of the Northwestern policy.

Conversely, the facts heretofore indicated shown on the part of both of the contracting parties, that is Michaelson the assured, and Northwestern, that the Northwestern coverage be terminated June 15, 1959. Both of these parties stated that they did not intend that both the Northwestern and Niagara policies stay in force. The Niagara coverage became in effect June 15, 1959.

C. That the Cancellation in This Instance Was Not Contingent Upon:

(b) Any Act on the Part of the Loss Payee Bank of America.

Cancellation by mutual agreement or by substitution can be effective as to the assured even if it is not effective as to a loss payee.

In the case of *Lauman v. Springfield Fire & Marine Ins. Co.*, 184 Cal. 650, 195 Pac. 50, under circumstances where the assured stated to the agent as follows: “Why worry . . . the policy is cancelled and your company has no liability”, the court held that the policy was cancelled as to the assured. The court further found that under the circumstances of the *Lauman* case where the loss payee, Dodd, did not agree to the cancellation or have notice, that as to Dodd there was coverage.

The court denied coverage to the assured *Lauman* who appealed from the trial court judgment to this effect.

In this instance the court has found and the evidence supports the Finding of Fact that the Niagara coverage was issued to replace the Northwestern and by the law heretofore set forth such substitution constitutes a cancellation as to the assured Michaelson. The appellant also asserts, as hereinbefore set forth, that Michaelson and Northwestern reached a mutual agreement of cancellation.

The test as to whether there was a cancellation by substitution is set forth in the case of *K. C. Working C. Co. v. Eureka-Sec. Ins. Co.*, 82 Cal. App. 2d 185:

“The real test of whether new insurance had been procured is whether appellant could have recovered for the loss from some company other than respondent.”

The court in this action has found that Michaelson had coverage and can recover from Niagara.

By the foregoing law and premise the appellant submits that the policy of Northwestern was cancelled with respect to Michaelson and further submits the following with respect to any interest of the loss payee, Bank of America:

(a) The Bank of America was named as loss payee under the Niagara coverage and was adequately protected thereby.

(b) Peters was agent for the Niagara, arranged for the Niagara coverage, and the loss payable thereunder to the Bank of America, and if the Bank of America does not complain of such a procedure it can be presumed that they ratify the acts of the Niagara's agent.

(c) That the interest of the loss payee, Bank of America, is not or was not in issue by the pleadings or this litigation, and the Bank of America is not a party to this action.

(d) That in any event the record establishes that the interest of the Bank of America in this matter was the sum of \$5,920.02 and that at most Northwestern's liability with respect to any interest of the loss payee, Bank of America, would be one-half.

"The 'interest' of the mortgagee referred to in such a clause is not his interest in the property insured but the 'interest' or amount which the mortgagor has appointed him to collect from the proceeds of the policy." *Hayward Lumber Co. v. Lyders*, 139 Cal. App. 517.

The record establishes that at the time of the fire, the amount owed to the loss payee, Bank of America, was the sum of \$5,920.02.

Conclusion.

The Appellant respectfully submits that the record and the law establish that the Northwestern policy was cancelled and that no obligation rests on the Northwestern with respect to the payment of any of the loss suffered by Michaelson, and that Northwestern is entitled to judgment against Niagara in the amount of the sum advanced to Michaelson.

Respectfully submitted,

BOLTON, GROFF & DUNNE,
*Attorneys for Appellant Northwestern
Mutual Insurance Company.*

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

GENE E. GROFF

No. 17747

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

NORTHWESTERN MUTUAL INSURANCE COMPANY, a corporation,

Appellant,

vs.

MILTON MICHAELSON, YETTA MICHAELSON and NIAGARA FIRE INSURANCE COMPANY, a corporation,

Appellees.

BRIEF OF APPELLEE NIAGARA FIRE INSURANCE COMPANY.

THOMAS P. MENZIES,
JAMES O. WHITE, JR.,

803 Rowan Building,
458 South Spring Street,
Los Angeles 13, California,

*Attorneys for Appellee Niagara Fire
Insurance Company.*

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**BRIEF OF APPELLEE NIAGARA FIRE
INSURANCE COMPANY.**

Jurisdiction.

In accordance with Rule 20 (U. S. C. A. 9, Subsection 2b) appellee Niagara Fire Insurance Company states that the statutory provisions believed to sustain the jurisdiction of the District Court to render judgment and of this Court upon appeal to review the judgment are as follows:

UNITED STATES CODE ANNOTATED,
TITLE 28, SECTION 1332: DISTRICT COURTS;
JURISDICTION: DIVERSITY OF CITIZENSHIP;
AMOUNT IN CONTROVERSY; COSTS

“(a) The district courts shall have original jurisdiction of all civil actions where the matter in

controversy exceeds the sum or value of \$10,000, exclusive of interest and costs, and is between-
(1) citizens of different States; * * *.”

UNITED STATES CODE ANNOTATED, TITLE
28, SECTION 1291: COURTS OF APPEALS:
FINAL DECISIONS OF DISTRICT COURTS.

“The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States, * * * except where a direct review may be had in the Supreme Court.”

The necessary diversity of citizenship arose from the fact that plaintiffs Milton Michaelson and Yetta Michaelson are citizens of the State of California; defendant-appellant Northwestern Mutual Insurance Company (hereinafter referred to as Northwestern) is a citizen of the State of Washington; and defendant-appellee Niagara Fire Insurance Company (hereinafter referred to as Niagara) is a citizen of the State of New York. The amount in controversy exceeds the sum of \$10,000.00 exclusive of interest.

Statement of the Case.

The Michaelsons were the owners of certain real property in Culver City, County of Los Angeles, California, which on July 17, 1959 was damaged by fire to the extent of \$16,000.00, as stipulated by the parties, and, before trial each insurance company paid the Michaelsons one half of that amount. Prior to that fire appellant Northwestern issued its fire insurance policy to the Michaelsons. Also prior to the fire appellee

Niagara had "bound" coverage on the same premises for identical coverage.

There was due to the Bank of America on the date of the fire the sum of \$5,920.02 plus interest and the policy of Northwestern contained a loss payable endorsement to said Bank of America, which form [Ex. N-3] contains the following language:

"This policy shall remain in full force and effect as to the interest of the Lender for a period of ten (10) days after its expiration unless an acceptable policy in renewal thereof with loss thereunder payable to the Lender in accordance with the terms of this Lender's Loss Payable Endorsement, shall have been issued by some other insurance company and accepted by the Lender." [Rep. Tr. p. 77, lines 12-19].

The same form reserves to the company the right to cancel and states in respect thereto:

". . . but in such case this policy shall continue in force for the benefit of the Lender ten (10) days after written notice of such cancellation is received by the Lender and shall then cease." [Rep. Tr. p. 77, line 22, to p. 78, line 1].

At the time of the fire one Ernie Peters was agent both for Northwestern and Niagara; however, at the time of trial was agent only for Northwestern [Rep. Tr. p. 62, lines 3-7]. On or about June 15, 1959 Northwestern advised him that it desired to be relieved of the risk. Ernie Peters, being also an agent of the Niagara, bound insurance on the property with Niagara and filed with Niagara an application for insurance. On June 12, 1959 Mr. Peters so advised Northwestern and stated:

“Will pick up pol. & return to you as soon as other is issued—loss payable involved” [Ex. NW-7, Rep. Tr. p. 36]. Niagara never issued a written policy [Rep. Tr. p. 45, line 24, to p. 46, line 4]. The day before the fire, July 16, 1959, Niagara had written to the agent, Mr. Peters, that it could authorize only \$9,500.00, or 50% of the \$19,000.00 requested in his application [Ex. NW-6, Rep. Tr. p. 34, lines 2-20; p. 67, line 25, to p. 68, line 13]. However, since Mr. Peters had not received this document prior to the fire of July 17, 1959, he was advised by Mr. Atkins of Niagara that Niagara would be on the loss for the amount stated in the application [Rep. Tr. p. 69, lines 21-24].

Mr. Peters testified that Northwestern had stated to him through its representative that it was their desire to have the policy and had inquired of Mr. Peters as to why they hadn't received it [Rep. Tr. p. 42, lines 3-13]. He was finally advised by Northwestern that because of his delay in returning its policy that Northwestern would send cancellation notices [Rep. Tr. p. 53, lines 8-12], which are in evidence. In one conversation between Mr. Peters and Northwestern Mr. Peters was informed that if he had not returned the original policies by a certain date they would be forced to send out written notice. Mr. Peters testified that a written notice of cancellation was something which he as an agent normally tried to avoid [Rep. Tr. p. 58, line 25, to p. 59, line 8]. Mr. Peters still did not pick up the policy for cancellation, so Northwestern sent separate cancellation notices to the Michaelsons and to the Bank of America [Ex. N-1 and N-2]. The cancellation notice sent to the Bank of America bears the date July 15, 1959 and reads, in part, as follows:

“YOU ARE HEREBY NOTIFIED, in accordance with the policy conditions, of the cancellation of Mercantile Policy No. 1003-8589, issued to Milton Michaelson Yetta Michaelson, loss, if any, payable to Bank of America National Trust & Savings written for a term of 3 years from May 13, 1958 and that 10 days from the date of service of this notice, at 12:00 o'clock noon, standard time, this policy will stand cancelled without further notice, and thereafter be null and void and no liability will exist thereunder * * *.”

The notice sent to the Michaelsons bears the same date, July 15, 1959, and is identical in its provisions to the one addressed to Bank of America with the exception that it provides that cancellation will be effective “5 days from the date of service of this notice.” Both of these cancellation notices were, therefore, mailed by appellant Northwestern prior to the fire but by their terms were not to become effective until after the fire of July 17, 1959. The agent, Mr. Peters, testified that when Northwestern advised him that it was its intention to send cancellation notices that: “That would have been one of the times probably I called Niagara to check on when they were going to issue the policy”, and further that he did not recall having responded to Northwestern upon receiving the advice respecting its sending cancellation notices [Rep. Tr. p. 53, lines 13-22]. Mr. Peters also testified that the reason he did not pick up the policy from the Bank of America was because he did not wish to disturb the bank on the matter [Rep. Tr. p. 44, lines 15-19], and that the Bank of America never authorized him to cancel its insurance with Northwestern Mutual;

that he had no dealings with the bank [Rep. Tr. p. 45, lines 2-6].

The insured, Mr. Michaelson, testified that he had never given the agent, Mr. Peters, authorization to cancel the Northwestern policy before Northwestern sent notice of cancellation or before he had received a policy issued by some other company to replace the Northwestern policy [Rep. Tr. p. 21, lines 10-15], and the agent, Mr. Peters, testified that the Michaelsons never told him that they wanted the Northwestern policy cancelled [Rep. Tr. p. 58, lines 20-22]. Mr. Peters further testified that the usual methods for cancellation of policies are: "picking up of the original, getting a loss policy recently (sic) signed, or formal legal notice" [Rep. Tr. p. 57, lines 13-15].

After the advent of the fire Mr. Michaelson called his agent and had his agent file claim with the Northwestern to recover for the damage he had sustained [Rep. Tr. p. 17, lines 2-6]. The agent, Mr. Peters, then notified Northwestern that a fire had occurred, whereupon Northwestern sent adjusters out to determine the loss and damage and the amount of loss was agreed upon between Mr. Michaelson and Northwestern [Rep. Tr. p. 54, lines 8-20].

Respecting the return premium due from Northwestern to the Michaelsons, it is set forth in the "Statement of Facts" contained in the opening brief of appellant Northwestern (p. 3): "Mr. Michaelson was charged for the Northwestern policy only until June 15, 1959, and he was given a return premium on a pro-rata basis as of that date." It should be noted, however, that no return premium was calculated either by Mr. Peters or

by Northwestern before the fire and that the computation of the return premium was not made until September 8, 1959—some 53 days after the fire [Rep. Tr. p. 53, line 23, to p. 54, line 8].

Issue on Appeal.

The District Court found that Northwestern's policy was in effect at the time of the fire, that Northwestern's policy had not been cancelled, and that neither Northwestern nor Niagara is liable to each other in any sum [Findings of Fact Numbers IV, VI, and VII]. Appellee Niagara deems the sole issue on this appeal to be whether or not the Trial Court was justified in making such findings upon evidence which showed that it was the intention of the insured and the agent to have a new written policy in hand before cancellation of the old policy, that Northwestern had sent written cancellation notices which were not by their terms to be effective until after the fire date, that there was no agreement nor any discussion with the Bank of America, loss payee, respecting cancellation, and that claim was made on Northwestern after the loss occurred.

ARGUMENT.

The Trial Court Was Justified in Finding That Northwestern's Policy Had Not Been Cancelled and Was in Effect at the Time of the Fire.

Rule 52 of Federal Rules of Civil Procedure provides, in part:

"FINDINGS BY THE COURT

"(a) Effect. * * * Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses. * * *.

Where findings of fact are supported by substantial evidence and not clearly erroneous, such findings are binding on the Court of Appeals (*Home Indemnity Co. v. Midwest Auto Auction, Inc.*, 285 F. 2d 708). This rule is applicable to inferences drawn from documents or undisputed facts (*United States v. Allinger*, 275 F. 2d 421).

The facts of this case are such that the trial court could and did reasonably hold that the Northwestern Mutual policy had not been cancelled at the time of the loss and that there was no cancellation by substitution. It is not California law that automatically when new insurance coverage is obtained existing coverage will be cancelled. The recent case of *Apparel Mfrs.' Sup. Co. v. National Auto & Cas. Co.*, 189 Cal. App. 2d 443, 11 Cal. Rptr. 380, relied upon by The Honorable Trial Court in its Memorandum of Decision in this case, indicates, as noted by Judge Kunzel, "that whether there is a cancellation by substitution is a question of fact, depending upon the intent of the assured." [Memoran-

dum of Decision, p. 3, lines 1-3.] In the *Apparel Mfrs.*' case the action was one for declaratory relief brought by an insured against two insurance companies. As in this case, one company had issued a policy of insurance, had informed its agent that it wanted to be relieved of the risk, and the same agent had bound coverage with another company. The appellate court, in a lengthy opinion, affirmed the trial court's judgment to the effect that each of the insurers was liable and should contribute equally to the loss. In that case, as in the instant case, the agent did not want the original policy cancelled until he had actually received the new policy. The court noted that there was support in the record for the trial court's determination that the agent had the authority to withhold the assured's assent to the cancellation of the National policy until such time as a policy from the other company was actually in hand. The Court stated in the *Apparel Mfrs.*' case:

"The trial court was warranted in concluding that while Harrow wanted to avoid the hazard of double premiums, he wanted even more to avoid the hazard of a lack of coverage. * * * until a formal policy should be delivered to him, there was the possibility that the new insurer might modify or withdraw its acceptance of the risk as evidenced by its oral binder." (11 Cal. Rptr. at p. 393).

A modification such as that referred to in the court's reasoning actually occurred here, but the decision of Niagara that it could accept only half of the proffered risk did not reach Mr. Peters until after the loss occurred.

In commenting on the scope of review on appeal of the trial court's findings, the court stated in the *Apparel Mfrs.*' case:

“While an inference might reasonably have been drawn from the evidence that the agreement between Apparel, acting through Harrow, and National, acting through Rossi, was that National’s liability should cease immediately upon the coming into being of binding coverage by Yorkshire, the problem presented on appeal is whether there is substantial support in the record for the inference drawn by the trial court that coverage by both National and Yorkshire was in full force and effect at the time of the fire.” (11 Cal. Rptr. at p. 392.)

Insurance Code Section 2071, which sets forth the basic fire insurance contract in the State of California, provides, in part:

“Pro rata liability

“This company shall not be liable for a greater proportion of any loss than the amount hereby insured shall bear to the whole insurance covering the property against the peril involved, whether collectible or not.”

As stated in *Gillies v. Michigan Millers Mut. Fire Ins. Co.*, 98 Cal. App. 2d 743, 221 P. 2d 272, 275:

“A ‘specific’ policy covers property at a specific location in a specific amount for a specified premium. In event of a loss, the insurer is liable to the extent of its policy. If there are two or more policies of specific insurance they prorate the liability to the extent of their joint coverage.”

Questions similar to those presented in the instant case were before the court in *Ohran v. National Automobile Ins. Co.*, 82 Cal. App. 2d 636, 187 P. 2d 66. That

action involved the question of liability under compulsory motor vehicle liability policies. The insured had requested his insurance broker to find cheaper coverage than he had. The broker did find cheaper coverage and the insured notified him that he wanted to cancel the policy which he had. The policy was then returned to the general agent of the original company and a policy ordered from the new company. A cancellation notice was likewise sent, calling for ten day cancellation. Although the decision is complicated somewhat by the fact of the compulsory nature of the coverage, the appellate court holds, based partly upon the acts of the parties, that the original contract was not cancelled, reversing the trial court's ruling. The court notes:

“In the case at bar the co-insurance clauses in both policies prove that the parties had contemplated the possibility of more than one valid insurance for the same accident. That it was appellant's understanding that both insurance companies were on the risk is shown by the fact that he notified both of the accident and of the opportunity of settlement. The only possible conclusion supported by the evidence is that, both according to the manifest understanding of the parties and in fairness, respondent was on the risk and has to bear its equal share of the loss.” (187 P. 2d at p. 72).

The court also gives great weight to the fact that the cancellation notice set forth a cancellation date after the loss, as was the case here, and cites various cases for the proposition that “‘All such transactions are to be construed reasonably and fairly and in accord with the evident understanding of the parties at the time.’”

Chase v. National Indemnity Company, 129 Cal. App. 2d 853, 278 P. 2d 68, 73, involved an action by an insured on automobile policies wherein a bank holding a lien on the vehicle filed a cross-complaint. Prior to the accident giving rise to the action, plaintiff Chase obtained a policy of insurance from Rainier National Insurance Company bearing a loss payable endorsement in favor of the bank. Thereafter, and before the accident of July 13th, the National Indemnity Company issued a new policy to be effective July 12th. The court noted:

“Therefore it seems clear that the Rainier policy was not canceled at the time of the loss, since no attempt was made to terminate the policy in accordance with requirements of the loss payable indorsement.” (278 P. 2d at p. 73).

It is frequently held that where cancellation notice is relied upon to cancel a policy of insurance, the insurance company “* * * must show a strict compliance with its terms in order to effect a cancellation. *Naify v. Pacific Indemnity Company*, 11 Cal. 2d 5, 76 P. 2d 663.

The position taken in this appeal by the appellant Northwestern is difficult to reconcile with its actions and the actions of its agent done before a loss had occurred which might fasten liability upon it. Northwestern sent a cancellation notice which was not, by its terms, to be effective until after the 17th day of July, which was the date of the fire. The failure of the agent to take any action to effectuate cancellation of the policy and the fact that he presented a claim to Northwestern after the loss persuasively indicate that the contract between Northwestern and its insureds was not cancelled as of the date of the loss.

The cases heretofore cited in this brief contain many of the same elements relied upon by the courts deciding them as were present for consideration of the trial court in this case. In the *Apparel Mfrs'* case, 189 Cal. App. 2d 443, 11 Cal. Rptr. 380, the court noted that it was the desire of the agent to avoid the hazard of lack of coverage which was evidently so in this case because the agent did nothing to pick up the policies, which would have been the normal method for him to effectuate an agreed cancellation. As in the *Ohran* case, 82 Cal. App. 2d 636, 187 P. 2d 66, the co-insurance clauses in the contracts show that the parties had contemplated the possibility of more than one insurance policy being in effect and, further, the acts of the insured and his agent in notifying both companies of the loss and filing a claim with Northwestern manifest the understanding of the insured and the agent that Northwestern was still "on the risk". Likewise, in the *Ohran* case, the court gave great effect to the fact that the cancellation notices there, as here, contained an effective cancellation date after the date of the loss. In *Chase v. National Indemnity Company*, 129 Cal. App. 2d 853, 278 P. 2d 68, the court gave effect to the fact that there was no attempt to terminate the policy in accordance with the requirements of the loss payable endorsement. In this case the Bank of America, loss payee, was never informed that it was the intention of Northwestern or of the agent or of the insured to cancel the policy and the cancellation notice mailed to both the bank and the Michaelsons contained an effective date subsequent to the date of the loss.

The belated attempt of Northwestern to indicate cancellation prior to the loss, by calculating the return

premium as of a date prior to the loss, was properly considered by the trial court as being of no consequence. It was not until September 8, 1959 that Northwestern computed the return premium based upon the purported June 15th cancellation date. Northwestern's argument of this subject would be more substantive had said computation and the return of premium been accomplished between June 15, the date upon which Northwestern contends its policy was cancelled, and July 17, the date when the fire occurred.

In *Angle v. United States Fidelity and Guaranty Co.*, 201 A. C. A. 833, 20 Cal. Rptr. 391, the court held that the right of an insurance company to prorate its liability vests upon the occurrence of the event giving rise to the liability. There, the court held, as did the Honorable District Court in this case, that two insurance companies, one of which had issued a policy of insurance covering certain property and another of which had issued a binder, must prorate the loss in accordance with the amounts of their policies and that an endeavor by one of the companies after the loss to reduce its coverage would not be effectual.

Conclusion.

Under the evidence presented the Honorable District Court could properly determine that, until the effective date of the written cancellation notices, the manifest intent of the insured, of Northwestern, and of Ernie Peters, its agent, was to have its coverage in effect until such time as a new policy of insurance was in the hands of its insured. Such a determination was made by Judge Kunzel, who stated in his Memorandum of Decision: “* * * the assured certainly didn't intend a cancellation until his lender was satisfied and until he had a policy * * *.”

We respectfully urge that the findings and judgment are amply supported by the record.

Respectfully submitted,

THOMAS P. MENZIES,

JAMES O. WHITE, JR.,

By JAMES O. WHITE, JR.,

*Attorneys for Appellee Niagara Fire
Insurance Company.*

Certificate.

I certify, that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

JAMES O. WHITE, JR.

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MILTON MICHAELSON, YETTA MICHAELSON and NIAGARA FIRE INSURANCE COMPANY, a corporation,

Appellees.

APPELLANT'S REPLY BRIEF.

The Appellee, Niagara, by its Brief, urges the propriety of the trial court's judgment on the following premises:

I. That the trial court has made a finding of fact holding that there was no cancellation by substitution and that such finding cannot be disturbed by the appellate court. (Appellee's Brief, p. 8.)

II. That where there are two California fire policies in force covering the same interest the liability of each carrier is pro-rated. (Appellee's Brief, p. 10; citing Ins. Code Sec. 2071.)

III. That even if there existed an effective cancellation by substitution the mailing of a cancellation

notice by Northwestern would be material and have bearing on whether Northwestern's liability was terminated. (Appellee's Brief, p. 12.)

IV. That the non-compliance with strict policy terms with respect to giving cancellation notice to a loss payee can prevent the application of the normal and usual contract legal principles as to legal relations between the assured and the company. (Appellee's Brief, p. 12.)

The Appellant submits that the judgment of the trial court and the Appellee's premises in support thereof cannot be sustained at law, and in answer thereto asserts:

I.

Re the Assertion That the Trial Court Has Made a Finding of Fact Holding That There Was No Cancellation by Substitution and That Such Finding Cannot Be Disturbed by the Appellate Court. (Appellee's Brief, p. 8.)

The corollary to the rule of the effect to be given to a finding of fact made by a trial court is so fundamental it needs no authority and is that if there is no evidence to support a finding of fact, such a finding by the trial court is without legal significance.

The record establishes that the day before the fire Peters, the agent for the Niagara, arranged with Michaelson to replace the Northwestern coverage with the Niagara coverage, and Michaelson was advised that the cancellation was by mutual agreement. [Rep. Tr. p. 14, lines 5-10; p. 9, lines 2-4.]

The Appellee, on page 8 of its Brief, quotes from Judge Kunzel's Memorandum of Decision as follows: "that whether there is a cancellation by substitution is a question of fact, depending upon the intent of the assured."

Michaelson, the one contracting party, the assured, did not intend to have the Northwestern policy stay in force.

"The Court: Let's take the first one. When was that?

The Witness: I would say it was about a month prior to the fire." [Rep. Tr. p. 8, lines 18-20.]

"The Court: What was said by you and by Mr. Peters?

The Witness: Well, to the best of my recollection, as I recall—

The Court: Just take it easy.

The Witness: —he mentioned that Northwestern intended to cancel out my insurance company, and I—by mutual agreement, as far as I recall." [Rep. Tr. p. 8, lines 23-25; p. 9, lines 1-4.]

"The Court: Overruled. Did you intend to have two policies cover your building?

The Witness (Michaelson): No." [Rep. Tr. p. 24, lines 12-14.]

Peters, the agent for the Niagara, did not intend that the Northwestern policy stay in force. Peters testified:

"The Northwestern Mutual wanted to be relieved of the risk, and as a result we rewrote the coverage with the Niagara Insurance Company, to be ef-

fective, I believe, June the 15th. I have a copy of my original application here, if that will be of any help to you.” [Rep. Tr. p. 28, lines 12-16.]

Peters testified further:

“Q. Mr. Peters, you did not intend that both the Niagara’s and the Northwestern Mutual’s policies be on the risk at the same time, did you?
A. No.” [Rep. Tr. p. 33, lines 17-20.]

The uncontroverted evidence by the parties themselves, namely, Mr. Michaelson, the assured, and Mr. Peters, the agent for the Niagara, is that the intention was that only the Niagara policy would be in force and the only conclusion that can be drawn therefrom is that such coverage with the Niagara was substituted for the Northwestern policy.

Any finding by the court that there was agreed upon or intended anything other than cancellation is contrary to this clear and unambiguous evidence, and without support by any other evidence.

The conclusion of the trial court judge, expressed in the Memorandum Decision, that “Additionally, the assured certainly didn’t intend a cancellation until the lender was satisfied and until he had a policy” is certainly contrary to the above evidence. The record is lacking in any other evidence supporting such a conclusion.

Appellant submits that such a conclusion, unsupported by any evidence and contrary to the express evidence, can be afforded no legal significance by this appellate court.

II.

Re the Assertion That Where There Are Two California Fire Policies in Force Covering the Same Interest the Liability of Each Carrier Is Pro-Rated.

Any reference to pro-ration begs the question. If the Niagara is the only policy in force by reason of the cancellation by substitution, there is no other applicable coverage with which the Niagara can pro-rate.

III.

Re the Assertion That Even if There Existed an Effective Cancellation by Substitution the Mailing of a Cancellation Notice by Northwestern Would Be Material and Have Bearing on Whether Northwestern's Liability Was Terminated.

The record establishes that the Northwestern had requested Michaelson to be relieved of their risk about June 15, 1959. [Rep. Tr. p. 9, lines 2-4; p. 9, lines 15-19.] That as a result thereof Peters, the Niagara agent, bound the coverage June 15th in the Niagara. The fire occurred July 17th. Peters made inquiry of Niagara for a policy at least three times before the fire. [Rep. Tr. p. 32, lines 7-25; p. 33, lines 1-2.] The Northwestern became concerned in that the policy had not been returned and sent out cancellation notices to the assured and the loss payee. [Rep. Tr. p. 53, lines 8-11.]

The Appellant submits that if as to Michaelson an agreement was reached prior to June 15th between Peters, the agent for Niagara, and Michaelson, if the Niagara coverage commenced June 15th and the North-

western coverage ceased as of that date as to Michaelson, the act of sending cancellation notice to Michaelson is a meaningless act in that the coverage had already been cancelled by law by cancellation by substitution. The later cancellation notice amounts to nothing more than an act done in a super-abundance of caution by the Northwestern. We know of no principle of law that requires that where a contracting party has more than one alternative of termination of obligation that the cautious exercise of both of the alternatives vitiates a prior effective legal act and termination of contractual obligation.

IV.

Re the Assertion That the Non-Compliance With Strict Policy Terms With Respect to Giving Cancellation Notice to a Loss Payee Can Prevent the Application of the Normal and Usual Contract Legal Principles as to Legal Relations Between the Assured and the Company.

The Appellee seems to predicate this proposition on three premises:

(1) The policy endorsement terms with respect to cancellation of a loss payee interest, and

(2) The failure to cancel as to the loss payee automatically suspends all legal principles of termination by agreement, and

(3) That because the Northwestern had not strictly complied with policy terms as to the cancellation to the loss payee, that as a matter of law the assured Michaelson's intentions are conclusively presumed to be contrary to his expressed intentions.

The wording of the loss payable endorsement fails to support the Appellee. If the policy is cancelled by notice

to the loss payee the form provides, "But in such case this policy shall continue in force *FOR THE BENEFIT OF THE LENDER* 10 days after written notice * * *". (Appellee's Brief, p. 3.)

Another portion of the form with respect to loss payees corroborates the intention that the provisions of the policy with respect to the loss payee are only as to the loss payee's interest. "This policy shall remain in force and effect *AS TO THE INTEREST OF THE LENDER*, for a period of ten days after expiration unless an acceptable policy in renewal thereof with loss thereunder payable to the Lender in accordance with the terms of this Lender's Loss Payable Endorsement shall have been issued by some other insurance company and accepted by the Lender." (Appellee's Brief, p. 3.)

It is apparent that the policy makes specific provisions with respect to the loss payee and these provisions, in substance, are as follows:

(a) That there is a special and independent relationship between the company and the loss payee, which relationship is limited to the interest of the loss payee.

(b) That if there is a renewal of coverage that there is no requirement of giving a cancellation notice to the loss payee.

The Appellant submits that the Niagara coverage renewed, by replacement, the same and identical coverage that was afforded by the Northwestern policy. The terms and conditions were the same and the Bank of America was the loss payee under the coverage bound by Peters in the Niagara. [Ex. NW-5.]

There is no evidence in the record that the Niagara was not acceptable to the Bank of America. The fact that the Bank of America is not a party to this action and has made no claim against the Northwestern is worthy of a strong inference that the Bank of America approved of the Niagara policy and accepted its coverage in lieu of the Northwestern policy.

That there was intended to be created distinct interests, that is, the interest of the assured Michaelson and the interest of the loss payee Bank of America, and that such interests could be separately terminated, is specifically indicated in the wording of the Lender's Loss Payable Endorsement, which provides: "Whenever this company shall pay to the Lender any sum for loss or damage under this policy and shall claim that as to the insured no liability exists, this company, at its option, may pay to the Lender * * *". [Ex. N-3.]

In this instance the Northwestern claims that as to the assured, Michaelson, there is no liability because there was an agreement of cancellation by substitution reached between the Northwestern and Michaelson. The Northwestern further asserts that it was the prerogative of the Bank of America, as a party to the contract, to pursue any rights or remedies they may have under the policy and that they elected not to do so.

Cancellation may be effective as to the assured and not to the loss payee.

Lauman v. Springfield Fire & Marine etc., 184
Cal. 650, 195 Pac. 50.

In any event, the limit of the interest of the Bank of America, loss payee, was \$5,920.02, the unpaid balance at the time of the fire.

Hayward Lumber Co. v. Lyders, 139 Cal. App. 517, 34 P. 2d 805.

V.

As to Michaelson, if the Niagara Coverage Was in Force, as the Court Has Found, It Is a Necessary Conclusion Therefrom That There Was a Cancellation by Substitution.

In support of the above proposition, the Appellant submits the following:

- (1) Michaelson intended a cancellation.
- (2) Peters, the agent for both Niagara and Northwestern, intended a cancellation.
- (3) Other acts of Niagara confirmed acknowledgment by Niagara of coverage.

These other acts are:

(a) Peters reported the loss to Niagara. [Rep. Tr. p. 38, lines 19-21.]

(b) Niagara, through its agent Peters, who was at the time agent for Niagara acting for Northwestern, gave a return premium to Michaelson calculated on a cancellation date of June 15, 1959. [Rep. Tr. p. 38, lines 12-18.]

(c) Even after learning of the fire Bob Atkins stated that Niagara was on for the full amount. [Rep. Tr. p. 69, lines 22-24; p. 35, lines 16-19.]

Conclusion.

Appellant submits that the evidence establishes that Michaelson and Niagara agreed, through Niagara's agent, Peters, that as to Michaelson's interest the Niagara policy was substituted coverage for the Northwestern policy.

Appellant submits further that, by the Lender's Loss Payable Clause specific terms and conditions, the Niagara policy constitutes a renewal of the Northwestern coverage, but, in any event, the interest of the loss payee, Bank of America, is a separate interest and was not claimed for or in issue in this litigation.

Respectfully submitted,

BOLTON, GROFF & DUNNE,

By GENE E. GROFF,

Attorneys for Appellant.

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing brief is in full compliance with those rules.

GENE E. GROFF

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

RICHARDS CONSTRUCTION COMPANY-)
Kaneohe Bay Project, Barry J.)
Richards Co., Bayrich, Inc.,)
Bayrich Inc. of California,)
Barry J. Richards, Inc.,)
Richards Construction Company,)
Massachusetts Bonding and)
Insurance Company, Barry J.)
Richards, and Gertrude Richards,)

Appellants,)

vs.)

Air Conditioning Company of)
Hawaii,)

Appellee.)

No. 17748 ✓

ON APPEAL FROM THE UNITED STATES
DISTRICT COURT FOR THE DISTRICT OF
HAWAII

BRIEF OF APPELLANTS

A. William Barlow
Gasco Building
Honolulu, Hawaii

Sandler & Rosen
435 North Bedford Drive
Beverly Hills, California

Attorneys for Appellants.

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1. The first of these is the fact that the...
2. The second is the fact that the...
3. The third is the fact that the...
4. The fourth is the fact that the...
5. The fifth is the fact that the...

The first of these is the fact that the...

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1. Name of the person or entity: [Name]

2. Address: [Address]

3. Date of birth: [Date]

4. Place of birth: [Place]

5. Nationality: [Nationality]

6. Occupation: [Occupation]

7. Education: [Education]

8. Marital status: [Marital status]

9. Date of marriage: [Date]

10. Name of spouse: [Name]

11. Date of divorce: [Date]

12. Name of children: [Name]

13. Date of birth: [Date]

14. Address: [Address]

15. Date of birth: [Date]

16. Address: [Address]

17. Date of birth: [Date]

18. Address: [Address]

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

RICHARDS CONSTRUCTION COMPANY-)
KANEIOHE BAY PROJECT, BARRY J.)
RICHARDS CO., BAYRICH, INC.,)
BAYRICH INC. OF CALIFORNIA,)
BARRY J. RICHARDS, INC.,)
RICHARDS CONSTRUCTION COMPANY,)
MASSACHUSETTS BONDING AND)
INSURANCE COMPANY, BARRY J.)
RICHARDS, and GERTRUDE RICHARDS,)

No. 17748

Appellants,)

vs.)

AIR CONDITIONING COMPANY OF)
HAWAII,)

Appellee.)

ON APPEAL FROM THE UNITED STATES
DISTRICT COURT FOR THE DISTRICT OF
HAWAII

BRIEF OF APPELLANTS

Jurisdictional Statement

This is an appeal from a judgment entered on November 28, 1961, by the United States District Court for the District of Hawaii, in favor of the plaintiff below and appellee herein, Air Conditioning Company of Hawaii, against the defendants

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

1914

JOHN J. HENNING, Plaintiff,
vs.
THE UNITED STATES, Defendant.

Appeal.

1914

THE UNITED STATES, Defendant.

1914

Appeal.

OF APPEAL FROM THE DISTRICT COURT

OF THE DISTRICT OF COLUMBIA

1914

1914

JOHN J. HENNING

This is an appeal from a judgment entered on December 20, 1913, by the United States District Court for the District of Columbia, in favor of the plaintiff and against the defendant.

below and appellants herein, in the sum of \$11,417.00, with interest at 6% from July 25, 1960, plus the additional sum of \$302.01, with interest at 6% from August 20, 1960, and costs, and adjudging that defendants take nothing by their counter-claim. The action was brought by the plaintiff to recover a balance allegedly due and owing under a construction subcontract executed on September 29, 1958 with the defendants, plus additional amounts claimed for extra labor and materials furnished to defendants.

The District Court's jurisdiction was invoked under the provisions of Title 28 U.S.C. Sec. 1331, Title 28 U.S.C. 1332, Title 28 U.S.C. Sec. 1352, Title 40 U.S.C. Sec. 270 and Title 42 U.S.C. Sec. 1594. (Complaint, paragraph IV, pages 2 and 3.) The amount in controversy exceeds \$10,000.00 and the action is between citizens of different states. (Complaint, paragraphs I, II, and III, pages 1 and 2.)

The appellate jurisdiction of this Court is founded upon the provisions of Title 28 U.S.C. Sec. 1291. Notice of appeal to this Court by the appellants and defendants was given and filed in the United States District Court for the District of Hawaii on December 27, 1961.

Statement of the Case

The District Court has made extensive Findings of Fact and Conclusions of Law setting forth the nature of this case. Since on this appeal defendants primarily urge that the District Court has erred in certain conclusions of law and defendants'

argument will require this Court's examination of the Findings of Fact and Conclusions of Law, they are now here set forth at length, in lieu of any other statement of the case:

"On December 4, 1957, invitations for bids for the construction of six hundred fifty (650) housing units at the United States Marine Corps Air Station at Kaneohe Bay, Oahu, T.H., for the Department of the Navy, Housing Contract No. NBy(CH)-12526 were sent to interested contractors. The bids, ultimately, were to be opened at 11:00 a.m. on Friday, January 31, 1958, at the District Public Works office at Pearl Harbor, Oahu.

"Among the interested contractors was the defendant, Richards Construction Company⁽¹⁾, and in the 'Builders Report of Hawaii' of January 20, 1958, appeared a half-page

"(1) The defendant Richards Construction Company-Kaneohe Bay Project is a general partnership consisting of the following defendants: (1) Bayrich, Inc., (2) Bayrich Inc. of California, (3) Barry J. Richards, Inc., (4) Barry J. Richards Co., and (5) Richards Construction Company, a limited partnership. This limited partnership is in turn made up as follows: (a) Barry J. Richards, an individual and a general partner, (b) Barry J. Richards, Trustee of the Barry J. Richards Trust for Susan Beth Richards, a limited partner, and (c) Gertrude Richards, Trustee of the Gertrude Richards Trust for Susan Beth Richards, a limited partner. The Massachusetts Bonding and Insurance Company was the surety on the bond on the general contract, said bond being issued for the protection of all persons supplying labor and materials used in the prosecution of the work on the contract. The Richards Construction Company by and through its general partner, defendant Barry J. Richards, caused to be formed defendant Richards Construction Company-Kaneohe Bay Project, a partnership, which partnership by and through all of its general partners undertook the performance of said building contract.

advertisement of the defendant requesting sub bids for the project. This advertisement showed the address of the Richards Construction Company to be 4811 Whitsett Avenue, North Hollywood, California, and also announced that the company's representative would be at the Surfrider Hotel on January 28, 29, 30 and 31. This advertisement was seen by Allen Arasato, foreman of the sheet metal department of the plaintiff.

"On January 30, 1958, the plaintiff filed a bid on Section 6 of the Housing Project Specifications: sheet metal work, at the figure of \$48,733.00, with the General Contractors Association of Hawaii, and either on that day or on the morning of Friday, January 31, the same bid was telephoned to the defendant, Barry J. Richards, who was the general manager of all of the defendants' interests (except Massachusetts Bonding and Insurance Company), at the Surfrider Hotel by Arasato.

"The defendant⁽²⁾, as a general contractor, had already secured bids from mainland United States contractors on this same item--one for \$173,395.00 and another for \$83,277.00. The defendant had been prepared to use an

"(2) Because of the complex make-up of the various 'Richards' partnerships, corporations, etc., the term 'defendant', as used throughout this decision, usually but not necessarily refers to the Richards Construction Company and on occasion to Barry J. Richards himself, inasmuch as he apparently was the sole manager of all of the 'Richards' operations.

\$83,000.00 figure for the sheet metal work prior to receiving Arasato's call. Relying on Arasato's call and a reconfirming call in which Richards advised Arasato that he was using the plaintiff's figure as lowest on the sheet metal work, Richards adjusted his figures for the sheet metal work to \$48,733.00 and on Friday, January 31, 1958, defendant Richards Construction Company by Barry J. Richards, general partner, submitted a bid of \$8,794,085.00 for the entire project. When the bids were opened at 11:00 a.m. on that day, the defendant was the low bidder. The Saturday morning, February 1, 1958, Honolulu Advertiser carried the bid story.

"The plaintiff was not open for business on Saturday, February 1, but on Sunday, Arasato, knowing that the defendant was the low bidder and having been advised that defendant was using plaintiff's figure, rechecked the figures of the plaintiff's bid and discovered that plaintiff's employee, Albert Sakuda, the actual estimator, had mistakenly used labor and material costs on fabricating galvanized sheet metal whereas the job Specifications called for zinc alloy metal. Arasato immediately determined that the cost of zinc alloy was about twice that of galvanized sheet metal.

"On Monday morning, February 3, 1958, Arasato notified J. Q. Quealy, Jr., general manager of the plaintiff corporation, of the mistake. Although the

exact difference in cost was not at that time available, it was known to be considerable. Quealy immediately notified Arasato to contact the low bidder. Arasato was unable to contact Richards at the Surfrider Hotel, but made no attempt to contact defendant in California. Richards had returned to California and did not come back to Hawaii until March 3, when Richards found a memorandum that he should call Arasato at the plaintiff company. He called and, about March 6, Arasato, for the first time, saw Richards at the Surfrider Hotel to tell him that the plaintiff had made a mistake and 'would like to withdraw their figures.' The defendant 'blew up.' The next day the defendant saw Quealy at the plaintiff's office and Quealy advised him that the plaintiff was not going to do the job at the bid price.

"On March 11, the defendant wrote the plaintiff formally accepting its confirmed offer of January 30, 1958 to do the sheet metal work for \$48,733.00. The plaintiff under date of March 25 wrote the defendant construction company that it did not consider itself under any contractual obligation to go through with its offer and claimed that its offer had been withdrawn.

"About a week later, Richards came back and discussed the possibility of using copper in place of zinc alloy. Whether this possible use of copper was initiated

by the defendant or by the Navy itself is not clear.

In any event, figures for copper were secured in March of 1958. On July 14, 1958, Richards wrote to the District Public Works Office, Fourteenth Naval District, proposing changing all zinc flashings to 16 oz. copper and indicated that there would be an increase in cost. The plaintiff's estimated price for using copper was \$96,000.00.

"There was some confusion as to when Richards again contacted the plaintiff requesting the plaintiff to work out a bid on the sheet metal work using zinc alloy. It may have been shortly before or after July 10, 1958, but in any event Richards came to the plaintiff in the summer of 1958 and said that he had endeavored to get prices from other contractors on sheet metal work using zinc alloy and that the Navy had refused to use copper and that he wanted the best possible figure from the plaintiff on a zinc alloy basis. The plaintiff gave to the defendant an offer to do the sheet metal work for \$68,761.00.

After some hard bargaining, the plaintiff reduced its figure to \$62,000.00, and, under date of September 28, 1958, the plaintiff and the defendant entered into a formal written contract whereby the plaintiff agreed to do the sheet metal work on the project for \$62,000.00.

"As the work progressed, the defendant paid the plaintiff a total of \$50,582.70. Then, when the

plaintiff had completed its work, satisfactorily, the defendant company refused to pay any more. In addition to that, the plaintiff had performed extra work to the reasonable value of \$302.01. This also the defendant refused to pay for. Suit was brought by the plaintiff for the above sums. The defendant counter-claimed alleging that the only contract price was \$48,733.00, and that therefore the defendant had over-paid the plaintiff in the sum of \$1,849.00.

"Both the plaintiff and the defendant companies have as their managers men who are ruthless in the pursuit of profit and neither Mr. Richards nor Mr. Quealy, Jr. impressed the Court with the accuracy of their respective statements. As the Court advised counsel in Chambers shortly after the trial had started, it clearly appeared to the Court that Barry Richards was parsimonious with the truth. Later, it was equally clear to the Court that the observation of the late Dr. Sigmund Freud that 'a person forgets what he wants to forget' might well be applied to the testimony of Quealy and certain other employees of the plaintiff. Defendant Barry Richards obviously is a tough and rough, smart, sharp general contractor who feels that the contracting business is one in which no holds are barred. Although the attitude of Quealy, Jr. was externally much more suave, the Court

was convinced that he too held the same general attitude toward the contracting business as does the more outspoken Mr. Richards. The Court was at all times faced with the task of sifting fact from fiction as well as forgetfulness that was tantamount to fiction.

"The first legal problem which the Court had to determine was whether or not a contract had been entered into between the plaintiff and the defendant at the \$48,733.00 figure submitted by the plaintiff.

"There was testimony from Mr. Richards that he had twice checked with Arasato as to the accuracy of the plaintiff's figures and that, after he was notified that his construction company was low bidder, he had on that same afternoon of Friday, January 31, contacted Arasato and in effect accepted plaintiff's bid. This 'acceptance' is not supported by the Richards Construction Company letter of March 11, 1958 (Ex. 8) to the plaintiff and the Court therefore does not believe that plaintiff's bid was accepted on January 31, 1958.

"The plaintiff's contention is that, even though it filed its bid with the General Contractors Association and telephoned its bid to the defendant, it had no enforceable contract with the defendant company; that its bid amounted to a revocable offer; and that the plaintiff communicated its revocation to the defendant before the

defendant accepted it.

"Admittedly, the filing of the bid was not an option supported by a consideration nor on the state of the record would there appear to be a bilateral contract binding the defendant to use the plaintiff's bid. On the other hand, plaintiff's bid nowhere stated either expressly or impliedly that it was revocable at the pleasure of the plaintiff before acceptance. Ex. J, 'Important Principles of the Bidding Procedure of the General Contractors Association of Hawaii', showed the basis upon which the bid was filed, viz., that after the bid deadline the bidding procedure rules of the Association forbid a change in bidding figures and if a bid contains an error it must be withdrawn before the general bid opening. As the principles of the Association state: ' . . . The salvation of each member's business and the industry lies in abiding by the Bidding Procedure and playing the game in an honest way. . . .' The plaintiff's bid (Ex. 2) filed with the General Contractors Association of Hawaii had no limitation as to how long it would remain open. The space provided for fixing such a limitation was left blank. The plaintiff's bid constituted a promise on its part to do all of the sheet metal work according to the specifications. The plaintiff certainly had reason to expect that, if its bid was lowest, that bid would be used by the

defendant. Plaintiff's bid was intended to induce action of a definite and substantial character on the part of the promisee, Richards Construction Company, and it did. The Court is fully satisfied that Richards Construction Company advised plaintiff that it was going to use the plaintiff's figure in its bid on the sheet metal work, and that the defendant did so use it.

"Section 45 of the Restatement of the Law of contracts provides:

'If an offer for a unilateral contract is made, and part of the consideration requested in the offer is given or tendered by the offeree in the response thereto, the offeror is bound by a contract, the duty of immediate performance of which is conditional on the full consideration of being given or tendered within the time stated in the offer, or, if no time is stated therein, within a reasonable time.'

And Comment b. on that section states that:

' . . . The main offer includes as a subsidiary promise, necessarily implied, that if part of the requested performance is given, the offeror will not revoke his offer, and that if tender is made it will be accepted. Part performance or tender may thus furnish consideration for the subsidiary promise. Moreover, merely acting in justifiable reliance on an offer may in some cases serve as sufficient reason for making a promise binding (see Sec. 90).'

"The subsidiary promise serves to prevent the injustice which would result if the offer could be revoked after the offeree had acted in reliance thereon to its detriment and this foreseeable prejudicial change in position implies a subsidiary promise not to revoke an

offer for a bilateral contract.

"Section 90 of the Restatement of the Law of Contracts states:

'A promise which the promisor should reasonably expect to induce action or forbearance of a definite and substantial character on the part of the promisee and which does induce such action or forbearance is binding if injustice can be avoided only by enforcement of the promise.'

"This Court is of the opinion therefore that the plaintiff in making its bid of January 30, 1958 made a promise which it should have reasonably expected would induce the defendant to submit a bid based thereon to the Government, that such a promise did induce this action, and that an injustice would have been avoided only by enforcement of the promise. (See Drennan v. Star Paving Company, 333 P.2d 757.)

"Although there was some evidence that the defendant thought that the plaintiff's bid was too low and hence inferentially there was knowledge that the plaintiff had made a mistake in its bid, the Court does not believe that the defendant did have any knowledge, prior to March 6, 1958, that the plaintiff had made a mistake in its bid. There was a variance of \$90,000.00 between two mainland bidders on the same sheet metal work and the difference between plaintiff's bid and the next above it was but \$34,000.00. Also, the plaintiff's bid was \$32,000.00 above the architect's estimate on the sheet metal work.

Although the Court is satisfied that later Richards told Quealy that he had been carrying a \$62,000.00 figure on the sheet metal work, the Court was convinced that this was but a part of the several and mutual misrepresentations made by Richards and Quealy, Jr. to each other in the course of bargaining over the price for which the plaintiff ultimately agreed to perform the work. Neither the plaintiff nor the defendant exhibited very clean hands to the Court in their entire series of transactions. Both the plaintiff and the defendant were out to make as much profit as possible out of each other without regard to business ethics and 'good faith'.

"The Court finds therefore that an enforceable contract was entered into by the defendant with the plaintiff--not necessarily on March 11 when the defendant wrote his letter of acceptance--but certainly by March 6 on the very date when Arasato first told the defendant at the Surfrider Hotel that 'my man made a mistake and we would like to withdraw our figures.' It was clear to the Court and the Court so finds that upon that occasion Richards by his words and actions clearly indicated that he had relied upon the plaintiff's bid of \$48,733.00, had used it in making his own bid as general contractor, and, by his words and actions with Arasato on that day and with Quealy on the following day, clearly indicated that he accepted plaintiff's bid.

"Immediately thereafter circumstances took place which are a little unclear to the Court. Although Richards testified that the idea of using copper originated with him, nevertheless his letter of July 14 to the District Public Works Office, Fourteenth Naval District (Ex. 0) leads to the inference that the Naval District itself had requested Richards to evaluate a change of all zinc flashings to 16 oz. copper. The Court is satisfied from plaintiff's Exs. 21 and 22, viz., radiograms, that as early as March 12, 1958 Richards was calling upon the plaintiff for a modification of the contract by way of substituting copper for zinc.

"In August or September 1958, the problem confronting the plaintiff and defendant was crystalized. The defendant had to go ahead with his general contract. The plaintiff was refusing to perform on his \$48,733.00 bid and contract. The defendant had tried to secure bids elsewhere but the lowest figure he could get was that of the Oahu Plumbing for \$79,889.00.

"The defendant went back to the plaintiff and asked the plaintiff to rebid the job using zinc. Thereupon, the plaintiff tossed the purely 'guesstimated' bid of \$68,761.00 to the defendant. The defendant, feeling that he was 'dealing with a chiseller', represented that he had a mainland bid of \$62,000.00 and that he had allocated

that figure for the sheet metal work and was willing to pay plaintiff that much for the work if plaintiff would do it, and the plaintiff, with a great show of being fair and honorable, advised the defendant that, 'because he felt a moral obligation to do so', he would reduce the bid by the margin of his profit--ten per cent--and do the job 'at cost' for \$62,000.00. In these respects the statements of neither the plaintiff nor the defendant were in the slightest degree true. It was in this frame of mind, and with the firm intention on the part of the defendant not to pay any more than he would be forced to because of work completion and by a court, that the plaintiff and the defendant entered into the contract of September 29, 1958 (Ex. 3) whereby the defendant agreed to pay the plaintiff \$62,000.00 for doing the same job which the plaintiff had previously promised to do for \$48,733.00.

"It is argued by the defendant that there was no consideration for this 'contract of September 29, 1958' and therefore it was unenforceable.

"This Court, having found that a contract between the plaintiff and the defendant was entered into in March 1958, and that the plaintiff refused to perform as promised, is of the opinion that if thereafter the defendant had awarded the contract for the sheet metal work to any person other than the plaintiff he could then have taken

legal action against the plaintiff for all of his costs in excess of the plaintiff's original bid. The defendant had these rights, but he did not choose to enforce them. Instead, in the fact of the plaintiff's refusal to perform as promised, the defendant went back to the plaintiff and as he said:

'I did my best to compromise the figure down to whatever possible figure I could get them (plaintiff) to perform '

'I would be glad to bring it (the sheet metal work) down to 48,000, 49,000 or 50,000 because of the amount of exposure I had. I was interested in getting the lowest possible bid I could with the amount of exposure I had '

'I have no intention of paying him (plaintiff) over that amount(\$48,733.00) or any reasonable amount over that that we might have to pay to keep him on the job '

'It's good business practice to get anything down to the lowest price '

Thus it was clear that the defendant entered into the formal contract of September 29, 1958, not for the purpose of mitigating damages for the plaintiff, but rather for the purpose and consideration of limiting his own company's exposure.

"As is set forth in the Restatement of the Law of Contracts, Sec. 406, Comment a., ' . . . Where, however, there is a bilateral contract, and each party is still subject to some duty thereunder, the agreement of each party to surrender his rights under the contract affords

sufficient consideration to the other for his corresponding agreement ' and Comment b., ' . . . if either party even wrongfully expresses a wish or intention to abandon performance of the contract, and the other party fails to object, there may be . . . circumstances justifying the inference that he assents ' It has been stated many times 'the right to contract includes the right to modify, change or abrogate a pre-existing contract and the mutual promises of the parties are sufficient to support the new agreement.' (Cases on all fours with the present problem of refusing to perform a pre-existing contract at any agreed price but subsequently performance at a new and higher agreed price are Bishop v. Busse, 69 Ill. 403; Cooke v. Murphy, 70 Ill. 96 (both decided by the same Judge). The same rule of law was applied in Grant Marble Co. v. Abbot (Wis.) 124 N.W. 264. The same principle was applied in Evans v. Oregon & W. R. Co. (Wash.), 108 Pac. 1095. It was also more recently followed in United States v. Slater (Alaska), 11 Fed. Supp. 418. As was said in Savage Arms Corp. v. United States, 266 U.S. 217, 220, 'the parties to a contract may release themselves, in whole or in part, from its obligations so far as they remain executory, by mutual agreement without fresh consideration. The release of one is sufficient consideration for the release of the other.' This rule

was applied in Borin Corp. v. Comm'r of Internal Revenue (6th Cir.), 117 F.2d 917, 920.)

"The Court finds that there was adequate consideration on both sides to support the formal contract of September 28, 1958 modifying the informal contract of March 1958. The plaintiff could not be compelled to do the sheet metal work (he was only liable for any damages suffered by the defendant). There had already been moves toward modifying the informal contract of March 1958 by substitution of copper and Richards himself stated that in entering into the formal contract of September 28, 1958 he was compromising his dispute with the plaintiff solely for the defendant's benefit. The Court finds therefore that the terms of that September contract were binding on both parties thereafter. The plaintiff having fully performed that contract is entitled to be paid in accordance with its tenor.

"Let Judgment be entered for the plaintiff against the defendants in the sum of \$11,417.00, this being the remaining amount due under the contract, together with interest at the rate of six per cent per annum from July 25, 1960, that being the date on which the defendant was billed for same.

"In addition thereto, the Court finds that extras to the value of \$302.01 were performed by the plaintiff

was assigned to John Doe, v. John Doe, at John Doe
(see page 1, 117 N. 11, 118).

The Court finds that the assignment was made

on both sides to support the same amount of damages

in 1950 and the amount of damages in 1951.

The plaintiff's claim is not supported in the case.

There is no evidence that the defendant's claim

is supported in the case. There is no evidence that

the defendant's claim is supported in the case.

The defendant's claim is not supported in the case.

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The defendant's claim is not supported in the case.

at defendant's request and that the plaintiff has not been paid for the same. Let Judgment be entered in favor of the plaintiff against the defendants in the additional sum of \$302.01 on account of the extras, together with interest at the rate of six per cent per annum from August 20, 1960, that being the date on which the defendant was billed for the same.

"Defendants shall take nothing by their counter-claim.

"Costs will be allowed the plaintiff."

Specification of Errors Relied On

1. The District Court erred in holding that there was adequate consideration on both sides to support the formal contract of September 28, 1958 modifying the informal contract of March 1958.

2. The District Court erred in holding that the terms of the September contract were binding on both parties thereafter, and that plaintiff was entitled to be paid in accordance therewith.

3. The District Court's conclusions of law, as aforesaid, are not supported by the findings of fact, and are contrary to law.

Question Presented

Whether the contract of September 29, 1958, whereby the defendants agreed to pay plaintiff the sum of \$62,000.00,

lacked consideration and was therefore unenforceable for the reason that, as the District Court has determined, the plaintiff had already entered into a binding and enforceable agreement to do the same job for defendants for the sum of \$48,733.00.

Summary of Argument

By the great weight of authority, the agreement of September 29, 1958 -- which was but an agreement by the plaintiff to perform an already existing obligation at an increased price -- lacks consideration.

The District Court, in effect, has applied the minority rule followed in Massachusetts and a few other states based upon the reasoning that since plaintiff had the privilege to pay damages rather than perform the contract at the bid price of \$48,733.00, the defendants received an additional consideration, namely, plaintiff's performance in lieu of a mere claim for damages against plaintiff when defendants agreed to pay the higher price of \$62,000.00.

This reasoning has been disapproved by most jurisdictions, and has been heretofore squarely rejected by this Court in Alaska Packers' Assn. v. Domenico, 117 F. 99.

The agreement of September 29, 1958 cannot be properly considered to be a valid rescission or modification of the March agreement for the same reason that there was no valid consideration therefor.

There was no honest dispute between the parties herein concerning the binding effect of the plaintiff's bid and defendants' acceptance thereof as to justify a conclusion that the September 29, 1958 agreement was intended to be in settlement of said dispute.

ARGUMENT

I.

The agreement of September 29, 1958, because it was merely an agreement by the plaintiff to perform an already existing obligation at an increased price, lacks consideration.

It is fundamental that when a party merely does what he has already obligated himself to do, he cannot demand an additional compensation therefor.

This rule has been almost universally followed, and is the rule in Hawaii, as set forth in Magron v. Marks, 11 Haw. Repts. 764.

An exhaustive discussion on this question appears in Williston on Contracts, Third Edition (1957), Volume 1, Section 130, wherein it is stated:

"Where A and B have entered into a bilateral agreement, it not infrequently happens that one of the parties, becoming dissatisfied with the contract, refuses to perform or to continue performance unless a larger compensation than that provided in the original agreement is promised him. Especially common is the situation where a builder or contractor undertakes work in return for a promised price and afterwards, finding the contract unprofitable, refuses to fulfill his agreement but is induced to fulfill it by the promise of added compensation. 'What we hold is that when a party merely does what he has already

obligated himself to do, he cannot demand an additional compensation therefor, and, although by taking advantage of the necessities of his adversary, he obtains a promise for more, the law will regard it as nudum pactum, and will not lend its process to aid in the wrong.'

"On principle, the second agreement is invalid for the performance by the recalcitrant contractor is no legal detriment to him whether actually given or promised, since, at the time the second agreement was entered into, he was already bound to do the work; nor is the performance under the second agreement a legal benefit to the promisor since he was already entitled to have the work done. In such situations and others identical in principle, the great weight of authority supports this conclusion. 'It is like carrying coals to Newcastle' to add authorities on a proposition so universally accepted and so inherently just and right in itself.'"

Williston, in the footnotes at pages 532 through 537, cites numerous decisions from many jurisdictions in a detailed treatment of this subject matter, and the Court's attention is respectfully referred thereto.

Williston, at Section 130A, goes on to point out the arguments which have been advanced to sustain such agreements, and demonstrates why such arguments are illogical and unsound, as follows:

obligated himself to do, he cannot demand an additional
compensation therefor, and, although by taking advantage
of the necessities of his adversary, he obtains a profit
thereby, the law still regards it as a good fortune, and will
not lend its process to aid in the wrong.

The principle, the second agreement is invalid for
the performance by the transferee of the contract is no legal
detriment to his creditor because given as promised, then,
at the time the second agreement was entered into, he was
already bound to do the work, and so the transferee could

the second agreement. A legal benefit to the transferee
since he was already bound to do the work. In
such situations and cases, the principle in Wright, the
great weight of authority supports this conclusion. 'It
is the duty of the transferee to the transferee' to the transferee
on a proposition he is already occupied and so is not
free and right in itself.

Wright, in the footnote at page 331 says 331.
After numerous decisions two may be mentioned in a brief
statement of this subject matter, and the Court's attention is
respectfully referred thereto.

Wright, at 331, says as to joint and the
separate estate have been advanced in certain cases, and
the transferee may not argue that the original and second
be follows:

"It has been said that the parties to the original agreement had either of them a privilege to subject himself to liability in damages if he preferred to pay damages rather than to perform the contract; and, therefore, it is contended, the surrender of the privilege to pay damages constituted a sufficient consideration. It is true that a promisor can refuse to perform his promises, and in most cases the only liability he incurs thereby is to pay damages, but this is far from saying that when one enters into a contract he in effect agrees to perform or pay damages at his option. Under ordinary contracts his duty is to perform the contract, and his co-contractor is entitled to the performance. Unless, therefore, he has reserved as an alternative in the contract the choice of making a money payment to the promisee he does not perform his legal duty by paying damages. Moreover, even if it could be conceded that the original promise is to be regarded as merely an alternative undertaking either to perform or pay damages, the situation here under discussion would not be helped at least if the second agreement were bilateral; for the same interpretation would have to be put upon the second undertaking as upon the first. One who was previously bound to do certain work or pay damages based on its value is promising nothing detrimental to himself or

beneficial to the promisee when he again promises to do that very work or to pay damages necessarily identical in amount with those for which he was previously liable.

"The other ground suggested for supporting the subsequent agreement is the rescission theory, - that the first agreement is rescinded by the second, and being rescinded, each party, free from previous obligations, may enter into the new agreement. If the original agreement is still in part at least unperformed on each side it may be rescinded by mutual consent. If the original agreement is rescinded, a new agreement made thereafter on any terms to which the parties assent will be binding. Therefore, a rescission followed shortly afterwards by a new agreement in regard to the same subject matter would create the legal obligations provided in the subsequent agreement. It must further be conceded that when a second agreement is made which is intended by the parties as a substitution for the original contract, there is mutual assent to the rescission of the earlier agreement. But calling an agreement an agreement for rescission does not do away with the necessity of consideration, and when the agreement for rescission is coupled with a further agreement that the work provided for in the earlier contract shall be

completed and that the other party shall give more than he originally promised, the total effect of the second agreement is that one party promises to do exactly what he had previously bound himself to do, and the other party promises to give an additional compensation therefor. If for a single moment the parties were free from the original contract so that each of them could refuse to enter into any bargain whatever relating to the same subject matter, a subsequent agreement on any terms would be good. The situation is not different from that existing where one subject to a unilateral obligation undertakes instead of merely performing that obligation to do something additional, nor indeed from that where one subject to no liability voluntarily agrees to assume one.

"In a few cases a distinction has been made and it is held that 'where the party refusing to complete his contract does so by reason of some unforeseen and substantial difficulties in the performance of the contract, which were not known or anticipated by the parties when the contract was entered into, and which cast upon him an additional burden not contemplated by the parties, and the opposite party promises him extra pay or benefits if he will complete his contract, and he so promises, the promise to pay is supported by a valid

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consideration.' The difficulty with this suggestion is that the unknown and unanticipated difficulties generally do not excuse the contractor from fulfilling his original contract. Accordingly in acting under the second offer, the contractor is merely doing or promising to do something which at the time he was under obligation to do, and which the promisee was entitled to receive." (Emphasis added.)

Research has failed to disclose any case decided in the Territory or the State of Hawaii involving the precise factual situation here presented.

However, this Court has heretofore itself considered the problem and has adopted the majority rule as set forth by Williston.

In Alaska Packers Association v. Domenico, (CAA 9th), 117 F.99, the plaintiffs had contracted to perform their services as sailors in navigating a vessel from San Francisco to a salmon canning plant in Alaska, and in catching and canning salmon while there, during the season, for which they were to receive a stipulated compensation. After reaching the plant, they refused without cause to further perform the contract unless the defendant's superintendent signed an agreement to pay additional compensation. He stated that he had no authority to do so, but being unable to procure other men, owing to the remoteness of the place and the shortness of the

season, he complied with their demand and a second contract was signed, identical with the first except as to the compensation to be paid.

The District Court, in an opinion reported in 112 F. 544, granted judgment for the plaintiffs upon the same theory (as stated by the District Court in this case) that the plaintiffs had a right to refuse to perform their contract and to pay damages for such refusal, and that the new contract therefore was based upon a good consideration to the defendant because it secured performance from the plaintiffs.

This Court, on appeal, rejected this reasoning and followed the reasoning set forth by Williston, at Section 130 above quoted, and in the course of its opinion quoted extensively from Lingenfelder v. Brewing Co., 103 Mo. 578, 15 S.W. 844, also relied upon by Williston at page 532.

The rule adopted by this Court in Alaska Packers Association v. Domenico (and the view advocated by Williston) was again referred to and quoted with approval by this Court in Power Service Corporation v. Joslin, (1949), 175 F.2d 698, and the Court's attention is respectfully referred thereto, including particularly the discussion at pages 701 and 702. In the Power Service Corporation case, which also involved a construction project where a bid was made and accepted prior to the execution of a formal contract between the parties, this Court held that the terms of the contract became fixed

when the bid was accepted, notwithstanding that a formal contract was not executed. The question involved was whether defendant was liable for damages resulting to the plaintiff from the defendant's failure to furnish necessary materials to install boilers within a specified time. The specifications which formed a part of the proposed contract upon which the bid was submitted relieved the defendant from any such liability. However, when the formal contract was executed, a rider was attached thereto at the request of the plaintiff which the plaintiff contended imposed liability upon the defendant for damages resulting from delay. This Court held that said rider, if it purported to impose liability upon the defendant, was ineffective because it could not alter the effect of the original specifications since there was no new consideration to support it.

So in the case at bar, and as the District Court has held, although the parties undoubtedly contemplated the ultimate execution of a more formal writing, the acceptance by the defendants of the plaintiff's bid resulted in a binding contract.

The change in the September 29, 1958 contract to a price of \$62,000.00 could not validly affect the price of \$48,733.00 contained in the bid and the contract resulting therefrom.

II.

The agreement of September 29, 1958, cannot be properly considered to be a valid rescission or modification of the March agreement for the same reason that there was no valid consideration therefor.

The District Court herein has not expressly found, as a matter of fact, or concluded as a matter of law, that the March, 1958 agreement was rescinded by the parties. Rather, as the Court's findings indicate, its holding is based upon the premise "that there was adequate consideration on both sides to support the formal contract of September 29, 1958 modifying the informal contract of March, 1958."

However, before so stating, the District Court quoted from Section 406 of the Restatement of the Law of Contracts which does treat generally with the question of the discharge of a contract by rescission.

That portion of the Restatement to which the District Court refers discusses the subject matter generally, and is limited or qualified by Section 408 thereof which follows, and which deals specifically with the situation here presented. Section 408 is entitled "Discharge of Duties under an Earlier Contract by a Subsequent Inconsistent Contract", and provides:

"A contract containing a term inconsistent with a term of an earlier contract between the same parties is interpreted as including an agreement to rescind

the inconsistent term in the earlier contract. The parties may or may not at the same time agree to rescind all the other provisions of the earlier contract. Whether they do this is a question of interpretation, except as this rule is qualified by the rule stated in Sec. 223."

This section is the controlling section, insofar as the case at bar is concerned, because here the September contract contains only one term which is inconsistent with the terms of the earlier contract, namely, the price to be paid.

But, the Restatement, under Section 408, goes on to^{make} the following comment:

"It is essential under the rule stated in the Section that the second agreement complies with the requisites for the formation of contracts. Therefore a promise by one party simply to perform all or a part of what he promised in the original contract will not support a promise by the other party to perform what he previously agreed to and something additional (see Sections 76, 78)." (Emphasis added.)

This is precisely the situation here involved, and therefore, under the reasoning adopted by the Restatement, it cannot be assumed that the execution of the September contract constituted a voluntary rescission or modification of the March contract.

1995, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 2680, 26

It is essential that the value added in the

In this respect, the language quoted by this court in Alaska Packers Association, supra, at 117 F., pages 102 and 103 is squarely applicable:

"No astute reasoning can change the plain fact that the party who refuses to perform, and thereby coerces a promise from the other party to the contract to pay him an increased compensation for doing that which he is legally bound to do, takes an unjustifiable advantage of the necessities of the other party. Surely it would be a travesty on justice to hold that the party so making the promise for extra pay was estopped from asserting that the promise was without consideration. A party cannot lay the foundation of an estoppel by his own wrong, where the promise is simply a repetition of a subsisting legal promise. There can be no consideration for the promise of the other party, and there is no warrant for inferring that the parties have voluntarily rescinded or modified their contract. The promise cannot be legally enforced, although the other party has completed his contract in reliance upon it." (Emphasis added.)

The District Court's findings of fact state that the defendant Mr. Richards "blew up" and protested violently when advised that plaintiff wished to withdraw its bid, and there is no basis for assuming that the defendant intended or agreed to

rescind the March, 1958 agreement.

As pointed out by Williston, *supra*, at page 540, "calling an agreement an agreement for rescission does not do away with the necessity of consideration, and when the agreement for rescission is coupled with a further agreement that the work provided for in the earlier contract shall be completed and that the other party shall give more than he originally promised, the total effect of the second agreement is that one party promises to do exactly what he had previously bound himself to do, and the other party promises to give an additional compensation therefor."

Similarly, under the circumstances of this case, it cannot properly be concluded that there was a valid consideration to sustain a modification of the informal contract of March, 1958, as held by the District Court.

As Williston points out, except for a contrary view which prevails as a matter of common law or statute in a few jurisdictions (Williston, page 536, footnote 6) the modification of a contract requires consideration, and a promise by one party to perform what he previously contracted for is not sufficient to support a promise to be chargeable with the additional item (see footnotes, Williston, page 535).

This basic concept, that modification of a contract in itself must be supported by a valid consideration, underlies this Court's decision in the Alaska Packers Association case,

As pointed out by William, there, at page 207, "Article
an Agreement on Agreement for Commission that had to take into
the necessity of immediate, and also the necessity for
involvement is required with a further agreement that the work
received for in the earlier agreement shall be completed and
that the other party shall also take the necessary steps
the fulfilment of the second agreement in that the party
proposed to be finally made the final agreement shall be
the, and the other party proposed to give an additional agreement
also required.

Finally, under the provisions of the 1935
which should be completed in that the party should
in regard to completion of the second agreement in that
1935, as well as the 1935 Agreement.

As William points out, except for a further view
which should be a matter of course, the 1935 Agreement
involvement (William, page 110, footnote of the 1935
of a contract between the 1935 Agreement and a second of the
party in agreement in previously mentioned but in the
involvement in regard to the 1935 Agreement with the
involvement from the 1935 Agreement, (William, page 111).

With this context, the 1935 Agreement is a contract in
which the party is required to be a valid agreement, however
the party's interest in the 1935 Agreement is not

supra, and has generally been required by the Federal courts. In Cuneo Press v. Claybourn Corporation, (CAA 7th), 90 F.2d 233, at 235, it is stated:

"Modification of a contract by subsequent agreement is subject to the rules governing all contracts. Consequently any promise therein contained to do that which one is already obligated to do confers no advantage on the promisee, imposes no detriment on the promisor and is without consideration. 1 Williston on Contracts (1936) Sec. 130; 1 Page on Contract, Sec. 539; Alaska Packers' Ass'n v. Domenico, 117 F. 99 (C.C.A.9); Empire State Surety Co. v. Hanson, 184 F. 58 (C.C.A.8); Frankfurt-Barnett Co. v. William Prym Co., 137 F. 21 (C.C.A.2); In re American Range & Foundry Co. (D.C.) 14 F.(2d) 466; Brunswig Grain Co. v. Anchor Grain Co., 10 F.(2d) 304 (C.C.A.5); G. S. Johnson Co. v. Nevada Packard Mines Co. (D.C.) 272 F. 291. In other words, consideration is necessary to support a waiver or release of rights whether accomplished by an original instrument or by a modification of an existing contract. Frankfurt-Barnett Co. v. Prym Co., 237 F. 21 (C.C.A.2); Empire State Surety Co. v. Hanson, 184 F. 58 (C.C.A.8); Weed v. Spears, 193 N.Y. 289, 86 N.E. 10; Goldsborough v. Gable, 140 Ill. 269, 29 N.E. 722, 15 L.R.A. 294."

The other cases relied upon by the District Court in support of its legal conclusions either represent the minority

view which this Court has refused to follow, or contain factual aspects not present in the case at bar.

For example, Bishop v. Busse, 69 Ill. 403 and Cooke v. Murphy, 70 Ill. 96, follow the rule that the party agreeing to pay a higher price is deemed to receive an additional consideration by way of performance as distinguished from being relegated to a claim for damages. It is to be noted, however, that the rule in said cases was held in Moran v. Peace, 72 Ill. App. 135, at page 139, to be "in conflict with the later as well as previous decisions of the same court, and therefore, overruled by the later cases above cited."

Grant Marble Co. v. Abbot (Wis.), 124 N.W. 264, actually involved a situation wherein the plaintiff sought reformation or rescission of a contract, and the Wisconsin court held that no case for reformation or rescission had been made out by the plaintiff.

Evans v. Oregon & N.P.R. Co. (Wash.), 108 P. 1095, also follows the minority rule rejected by this court in Alaska Packers Association, supra.

In this respect, it appears that the Supreme Court of Washington has now joined the majority. See Westland Construction Co. v. Cris Berg, Inc., 215 P.2d 683, involving a situation where a plastering contractor entered into a valid contract for the plastering of certain houses and contended that it had erred in making the bid. It claimed that a subsequent agreement

was made whereby the contractor was to do the same work for a higher price. The Washington Supreme Court held that such a subsequent agreement would have been void because without consideration (215 P.2d, at page 690).

United States v. Slater, 111 F. Supp. 418, cited by the District Court does not involve the factual situation here presented, but instead, involved a case wherein the contractor had performed additional work over and beyond that originally called for. The Court held that the contract had been modified to permit him to recover for the extra work involved.

Savage Arms Corp. v. United States, 266 U.S. 217, 220, and Borin Corp. v. Commissioner of Internal Revenue, 117 F.2d 917, 920, are also not analagous to the case at bar for the reason that in those cases there were express agreements or understandings between the parties that the parties were releasing each other from claims against one another. In the case at bar, there is no evidence of any express agreement to mutually release one another from any claims arising out of the March, 1958 contract nor has the District Court in this case purported to so find or hold.

The District Court, in its findings, dwells at length on the discussions which took place concerning the possibility of changing the specifications to substitute copper in place of zinc alloy in the sheet metal work. No change resulted from these discussions. The mere fact that these discussions were

had does not affect the fact that there was a binding contract as the result of the bid and acceptance in March, 1958, and that the September contract did not purport to substitute copper instead of zinc alloy. The discussions concerning the possible use of copper had no bearing on the contractual obligation which arose in March, 1958, or on the effectiveness of the subsequent September formal agreement. Had copper been substituted in the contract as signed, then of course there would have been a valid and enforceable change from the March contract.

III

There was no honest dispute between the parties herein concerning the binding effect of the plaintiff's bid and defendants' acceptance thereof as to justify a conclusion that the September 29, 1958 agreement was intended to be in settlement of said dispute.

A fair and reasonable interpretation of the District Court's findings of fact and conclusions of law demonstrates that the Court's conclusions and judgment are predicated upon the legal premise and view that the performance obtained by defendants under the contract of September 29, 1958 constituted adequate consideration for said contract and the modification of the March contract purportedly accomplished thereby.

The Court does not in its findings of fact find that the September contract was in settlement of a bona fide dispute. The Court, however, does, in closing, make reference to the testimony of Mr. Richards "that in entering into the formal contract of

September 29, 1958, he was compromising his dispute with the plaintiff solely for the defendant's benefit."

The term "compromise" as used in this statement by the Court, and as used in other quotations in the Court's findings from the testimony of Mr. Richards, had reference to the negotiations which took place between Mr. Richards and plaintiff's representative concerning the additional price at which plaintiff would do the work, and not from the standpoing of compromising any dispute between the parties as to the validity of the March contract based upon the bid made by plaintiff and defendants' acceptance thereof.

The findings of the Court demonstrate that from the very first time that plaintiff's president Mr. Quealy, Jr. met Mr. Richards, the question was not whether there was a valid binding contract between plaintiff and defendant -- the sole question was whether or not plaintiff was going to perform at the price bid. As Mr. Quealy testified, as to the substance of his first conversation with Mr. Richards (Tr. p. 225):

"I told Mr. Richards of the mistake that we had made, of the efforts we had made in trying to reach him. I told him that it would be impossible for us to perform the work on the basis of our quotation, and that in doing so we would sustain a substantial loss to our firm and we could not stand such a loss." (Emphasis added.)

The discussions which later took place between them, resulting in the \$62,000.00 figure, was not for the purpose of

November 24, 1954, the act contemplated the same for

absolute safety for the individual member.

The same "contingency" as was in the contract of the

State, and as used in other contracts in the State's history

from the contract of 1854, 1855, and 1856, is the same

contract which had been before the Legislature and which

represented the interests of the individual member in the

contract of 1854, and not the contract of 1855.

Any difference between the contract of 1854 and the

contract of 1855 was the result of the contract of 1854.

Contract of 1854.

The contract of the State, however, was not the

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compromising any dispute as to plaintiff's obligation to do the work for the bid price, but to see at what price plaintiff would perform. As Mr. Richards testified on cross-examination (Tr. p. 423):

"My frame of mind all along, Mr. Cox, was to get them to perform at the price they quoted to me, and if I couldn't, to get it at the next lowest price and to seek whatever recourse I could to compensate me for any loss that I incurred."

And, at page 420:

"When we agreed on this amount of \$62,000 I was at no time happy or pleased about it. And I took it and stated at the time that they had me over a barrel and I had no other choice since it was the lowest possible figure I could get."

CONCLUSION

Defendants do not dispute their liability to plaintiff for the extras in the amount of \$302.01 awarded plaintiff by the judgment of the District Court in this case. However, for all of the reasons aforesaid, defendants respectfully submit that the liability on the basic subcontract should be limited to the sum originally agreed on by the plaintiff, namely, \$48,733.00, and that the judgment of the District Court should be reversed with instructions to render judgment in favor of defendants and against plaintiff on defendants' counter-claim to the extent

that defendants have over-paid plaintiff, after giving plaintiff credit for the extras above referred to.

Respectfully submitted,

A. WILLIAM BARLOW
and
SANDLER & ROSEN

By
Raymond C. Sandler
Attorneys for Appellants

435 North Bedford Drive
Beverly Hills, California

These statements have been verified by the following persons:
Name for the above stated purpose.

Respectfully submitted,
A. WILLIAM WILSON
and
WILLIAM E. WILSON

By
James G. Hamilton
Attorney for Defendant
411 North Second Street
New York City, New York

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

RICHARDS CONSTRUCTION COMPANY-)
Kaneohe Bay Project, Barry J.)
Richards Co., Bayrich, Inc.,)
Bayrich Inc. of California,)
Barry J. Richards, Inc.,)
Richards Construction Company,)
Massachusetts Bonding and)
Insurance Company, Barry J.)
Richards, and Gertrude Richards,)

No. 17748

Appellants,)

vs.)

Air Conditioning Company of)
Hawaii,)

Appellee.)

ON APPEAL FROM THE UNITED STATES
DISTRICT COURT FOR THE DISTRICT OF HAWAII

ANSWERING BRIEF OF APPELLEE

Of Counsel:

SMITH, WILD, BEEBE & CADES

James S. Campbell
Robert B. Bunn
4th Floor, Bishop
Trust Building
Honolulu, Hawaii

Attorneys for Appellee

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UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

RICHARDS CONSTRUCTION COMPANY-)
KANEOTE BAY PROJECT, BARRY J.)
RICHARDS CO., BAYRICH, INC.,)
BAYRICH INC. OF CALIFORNIA,)
BARRY J. RICHARDS, INC.,)
RICHARDS CONSTRUCTION COMPANY,)
MASSACHUSETTS BONDING AND)
INSURANCE COMPANY, BARRY J.)
RICHARDS, and GERTRUDE RICHARDS,)

No. 17748

Appellants,)

vs.)

AIR CONDITIONING COMPANY OF)
HAWAII,)

Appellee.)

ON APPEAL FROM THE UNITED STATES
DISTRICT COURT FOR THE DISTRICT OF HAWAII

ANSWERING BRIEF OF APPELLEE

JURISDICTION

The jurisdictional statement contained in
Appellants' Opening Brief is correct.

QUESTION PRESENTED

Where Appellants based an offer on a mistaken
belief as to certain materials called for by Appellee's

bid specifications and the parties, some six months after the creation of an informal contract based on such offer and after negotiations looking toward a compromise of the disputed validity of such contract, entered into a new formal contract containing a higher contract price, and where the trial court finds as fact that there is consideration for such formal contract, may the formal contract be set aside on appeal as without consideration?

SUMMARY OF ARGUMENT

I

The District Court decision, as shown by the authorities upon which it is based effectively holds that the parties rescinded the old March 1958 contract by entering into a new contract in September 1958. When there is such a rescission the substituted mutual promises of the parties are sufficient consideration to support the new contract.

II

In Hawaii, by case precedent the question of whether or not there is consideration for the substitution of a new contract for an old contract is a question of fact. In the instant case the lower court found:

"...that there was adequate consideration on both sides to support the formal contract of September 28, 1958, modifying the informal

contract of March 1958...." (Findings of Fact and Conclusions of Law p. 14)

Such findings of fact unless "clearly erroneous" should be affirmed by this court.

III

Assuming but not conceding that there was not a mutual rescission followed by the formation of a new contract, nevertheless this case would properly fit under the well recognized "burdensome conditions" exception to the rule that there is no consideration for a promise of additional consideration for an unchanged performance. The Hawaii Supreme Court is of the opinion that the general rule is "harsh" and "violative of good faith" and will depart from such rule on "slight distinction". Thus, the Hawaii Supreme Court would adopt the "burdensome condition" exception to the general rule, which exception has grown to such proportion in this country that it is now larger than the rule itself.

A R G U M E N T

I

THE FORMAL CONTRACT ENTERED INTO BY THE PARTIES DURING SEPTEMBER 1958 WAS SUPPORTED BY VALID CONSIDERATION SINCE THE ENTRY INTO SUCH NEW CONTRACT CONSTITUTED A RESCISSION OF THE OLD INFORMAL CONTRACT OF MARCH, AND THE MUTUAL

PROMISES OF THE PARTIES TO THE NEW CONTRACT ARE VALID
CONSIDERATION THEREFOR.

(a) The Opinion of the District Court Shows that
It Found As a Matter of Fact That There Had
Been a Rescission of the Old Contract.

At page 14 of the Findings of Fact and Conclusions
of Law the lower court stated:

"...It has been stated many times 'the right
to contract includes the right to modify, change
or abrogate a pre-existing contract and the
mutual promises of the parties are sufficient to
support the new agreement'..."

The reason and necessity for this rule is self-evident.
Parties who are free to contract and so contract must also
be free to change, rescind or otherwise modify the contract
that exists between them in order to meet problems and new
circumstances originally unforeseen. Such changes, or re
cissions, if agreed to, are valid and enforceable, for the
new promise of one is consideration for the new promise of
the other. In such a situation the courts do not make
inquiry into the adequacy of the new consideration.

In this case, the lower court found that there was
adequate consideration for the new contract of September 29,
1958. (Findings of Fact and Conclusions of Law, p. 14) In
support of its finding the Court quoted the Restatement
of Contracts, Section 406, Comment a., that:

"...the agreement of each party to surrender his rights under the contract affords sufficient consideration to the other for his corresponding agreement..."

In effect the lower court found that the parties rescinded the informal March contract and entered into a new contract on September 29, 1958. The reasons given for such holding and the authorities cited in support thereof by the lower court are all based on the above-quoted rule of law. Supporting this contention are the citations found by the court to be "on all fours with the present problem." All of these cases, on close examination, will be found to be rescission cases, where the parties released themselves from their former contract by entering into a new one.

In Borin Corp. v. Commissioner of Internal Revenue, 117 F.2d 917, 920 (6th Cir. 1941), cited by the District Court, it was pointed out that parties to a contract are always at liberty to rescind a contract as to executory obligations. The Court found that the defendant under the facts of the Borin case:

"...cannot contend that this [new] agreement, deliberately executed, did not carry the legal conclusions which attach to the language employed by it."

Where Richards Construction Company drafted a new contract and sent it to the Appellee for execution after

protracted negotiations, it would seem anomalous to allow the Appellants to avoid the clear import of the language deliberately embodied in the contract which the Appellants drafted and executed in substitution for the informal contract of March.

As quoted in Ting v. Born, 21 Haw. 652, 660 (1913), the rule is that:

"...As a contract is the result of agreement, so an agreement may put an end to a contract. Therefore a contract may be discharged at any time before the performance is due, by a new agreement with the effect of altering the terms of the original agreement or rescinding it altogether; and a claim under the original contract may then be met by the new agreement, so far as the latter operates to alter or rescind the former..."

In the Ting case, the Hawaii Supreme Court held:

"...the evidence adduced by the plaintiff tends to show that by the terms of this latter contract, which was a new, distinct and independent contract, all the respective rights and obligations of the parties created and imposed by the October contract were completely wiped out;..." (Id. 660)

(b) The Rescission of an Old Contract and Entry into a New Contract Provide Their Own Consideration.

As stated in Savage Arms Corp. v. United States, 266 U.S. 217, 220 (1924) (citing by the lower court):

"...It is enough to say that the parties to a contract may release themselves, in whole or in part, from its obligations so far as they remain executory, by mutual agreement, without fresh consideration.

The release of one is sufficient consideration for the release of the other. If authority for a rule so elementary be required see for example:..." [citing cases]

It is of course unnecessary that the consideration for a contract be set out therein. Clark & Henery v. Hackfeld & Co., 16 Haw. 53, 62 (1904).

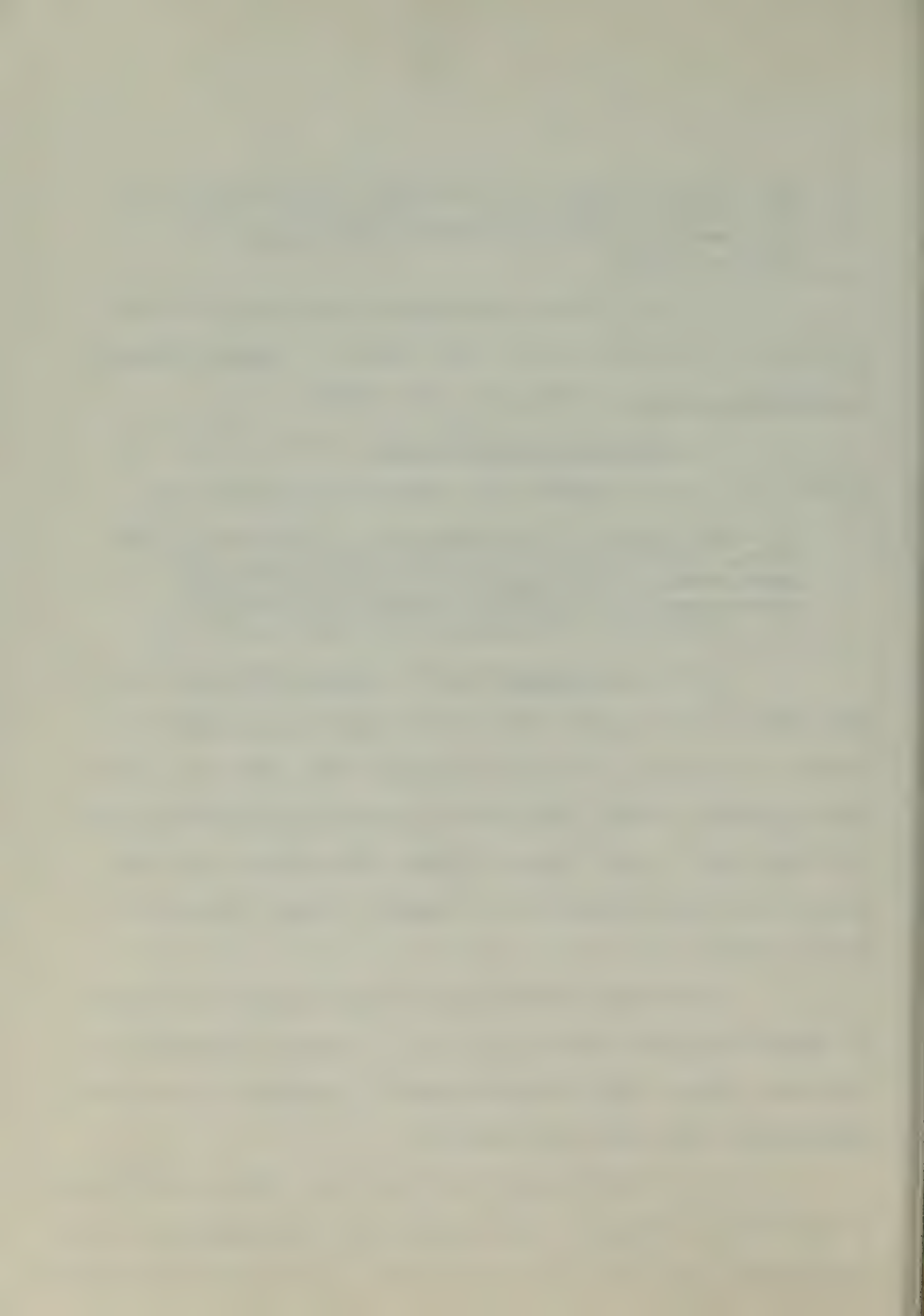
In Trousseau v. Cartwright, 10 Haw. 138, 142 (1895), the court quoted with approval the rule that:

"..."detriment to the promisee is a universal test of the sufficiency of consideration; i.e. every consideration must possess this quality, and, possessing this quality it is immaterial whether it is a benefit to the promisor or not."..."

In the Trousseau case the Hawaii Supreme Court held that it was a detriment to one party to a debt to promise to pay an outstanding balance "as soon as circumstances would allow" (stated by the court to be equivalent to "when able") even though it was clear that the other party could have compelled the debtor to pay "when able" in any case.

In the case before us it was clearly a detriment for Appellee, Air Conditioning Co. of Hawaii (hereinafter sometimes called "Air Conditioning"), to agree to proceed immediately with the new contract.

It is also clear that there was substantial benefit to Appellant, Richards Construction Co. (hereinafter called "Richards"), for Air Conditioning to perform the new contract.



The first benefit is that the Appellee could and did timely perform the contract thus not adversely affecting the construction schedule of the 650 housing units to be built. Secondly, even at the revised figure, Air Conditioning's bid was much less than the next lowest bid. Richards also saved the time, expense and apprehension of litigation involved in pursuing its remedy for damages, if any, should he have granted the subcontract to a third party. In addition, Richards had the benefit and security of not being put to the delay and uncertainty incident to finding some other contractor to perform the necessary sheet metal work.

In the final analysis one can only conclude that in September of 1958 Richards wanted Air Conditioning to perform the subcontract for \$62,000. He knew there would be no performance at the lower figure, and he knew that the actual validity of the informal contract was in doubt.^{1/} As he said, "...I was interested in getting the lowest possible bid I

^{1/} This doubt is recognized by Mr. Richards at page 424 of the transcript. [Mr. Cox] "Q: I still don't think you get the import of my question. If you weren't intending to pay more than 48,000, why was it so vital that you bring it down from 68 to 62? [Mr. Richards] A: Because if I lost--" Apparently what Richards really wanted to do was to enter into a contract which reduced his exposure but one which would not reduce Appellee's exposure.

could with the amount of exposure I had". (Tr. 424) Thus, to obtain performance and to reduce his exposure Richards did his best "...to compromise the figure down to whatever possible figure I could get them to perform..." (Tr. 415-416) Accordingly, when Richards drafted the new contract and executed it intended to both reduce his exposure and obtain immediate performance.

One can conclude that Richards must have intended to settle the dispute by rescinding what the lower court later found to be the informal contract of March. Once the informal contract was rescinded, and the lower court appears to have so held, the mutual promises of the parties are sufficient consideration to support the new contract of September 1958. Savage Arms Corp. v. United States 266 U.S. 217, 220 (1924).

II

THE DISTRICT COURT HAS FOUND THAT THE SEPTEMBER CONTRACT WAS SUPPORTED BY ADEQUATE CONSIDERATION. THAT DECISION IS NOT CLEARLY ERRONEOUS AND MUST BE AFFIRMED.

In many circumstances whether there was or was not a rescission of a previous contract by a later one is a question of fact. The testimony adduced clearly indicates that in this case the question is one of fact. The cumulative effect of all of the testimony and the credibility

of each witness was considered and weighed by the District Court before it entered its finding.

The lower court expressly found that there was adequate consideration for the September 29 contract and that the modification of the March 1958 contract by the later contract was a benefit to Richards. (Findings of Fact and Conclusions of Law p. 15) The finding that the modification was of benefit to Richards is consistent with the Hawaii cases cited above, and may not be reversed by this court unless clearly erroneous.

"...Findings of fact shall not be set aside unless clearly erroneous..." Fed. R. Civ. P. 52(a).

Under the doctrine of the Hawaii cases to be discussed infra, III (a), whether there is consideration for a promise of additional compensation for a previously agreed upon performance is a question of fact to be decided upon by the jury, and the Hawaii court will go to great lengths to avoid the harsh effects of the general rule. The effect of such Hawaii doctrine, coupled with the "unless clearly erroneous" requirement of Rule 52(a) requires that the District Court's finding be affirmed.

III

EVEN IF THERE HAD BEEN NO RESCISSION OF THE INFORMAL MARCH CONTRACT BY THE NEW FORMAL SEPTEMBER CONTRACT, THERE WAS

ADEQUATE CONSIDERATION FOR THE SEPTEMBER CONTRACT DUE TO THE MORAL OBLIGATION ARISING FROM, AND THE BURDENSOME CONDITION AND UNFORESEEN DIFFICULTY CAUSED BY APPELLANTS' MISTAKE AS TO THE MATERIALS ACTUALLY REQUIRED BY THE SPECIFICATIONS.

(a) The Hawaii Cases Indicate That The Hawaii Supreme Court Will Seize Any Possible Opportunity to Avoid the Effect of the General Rule That Agreement To Pay Additional Compensation for a Previously Contracted for Performance is a Mere Gratuity.

In Ahlo v. Tai Lung, 9 Haw. 272 (1893) the court considered whether the payment of a portion of a debt could ever discharge such debt. The court at page 278 asked:

"Was it proper to leave to the jury the question whether the remainder of the debt was released by Hackfeld & Co.? We find it laid down in well accepted authority that, in general, the acceptance of a less sum of money than is actually due is not a satisfaction of the debt and will not extinguish it, though it was agreed by the creditor to operate as such, as there is no consideration for the relinquishment. This rule is considered so harsh and so violative of good faith that courts are disposed to take out of the rule all those cases where there was any new consideration or where there was any collateral benefit received by the creditor. "Courts have departed from it on slight distinctions." Kellogg vs. Richards, 14 Wend. 116; Brooks vs. White, 2 Met 285.

"The rule and the reason were purely technical and often fostered in bad faith."

"The history of judicial decisions upon the subject has shown a constant effort to escape from its absurdity and injustice." Harper vs. Graham, 20 Ohio 106.

"The jury had before them the fact of the taking of all the defendant's goods from his store to be sold for the benefit of his creditors. This insured the creditors that the debtor's property would promptly be applied to their debts and they received 22 1/2 per cent. From these facts the jury might well find that this collateral benefit was a sufficient consideration and so an agreement to accept in full could be supported. This was a much more substantial consideration than some that were held good by the ancient authorities, as in Pinnel's case, 5 Coke 117, where the gift of a horse or the like is stated to be good consideration though of far less value than the debt released, and as stated in Sibner vs. Tripp, 15 M. & W. 37, that if a piece of paper or a stick of sealing wax is substituted the bargain may be carried out..." (Emphasis added).

Thus the Hawaii court has stated that it considers the general rule so harsh and violative of good faith that even slight consideration will take the case out from under the general rule. Further, the court held it proper to leave to the jury the question whether the "collateral benefit" of prompt payment of part was sufficient consideration for the release of the whole debt.

In this case, the District Court has found that the benefit to Richards of Air Conditioning's agreement to perform the contract at a \$62,000 figure was sufficient consideration for Richards' agreement to pay that sum. Such a finding is consistent with the rule of Hawaii enunciated in the Ahlo case.

Appellants cite Magoon v. Marks, 11 Haw. 764 (1899) as indicating that Hawaii follows the general rule, and

urges that such rule should be applied here. However, while in that case the Hawaii court considered whether there was consideration for a promise to pay extra for the doing of what the promisee was already under an obligation to do, the court's statement of the general rule that such a promise was a mere gratuity, was obiter dictum. The court actually held that whether the promise of extra compensation was given for adequate consideration or whether it was a mere gratuity, was a question of fact to be determined by the jury, stating that the jury must consider the evidence as to just what the promise was for and whether there was consideration for it.

The result of the Magoon case is that the court found there were two simultaneous independent promises of compensation and therefore both were enforceable. Thus the statement of the court of the harsh general rule, obiter, must not be given overemphasis.

The holding of the Supreme Court of Hawaii in the Magoon case is consistent with its clear opinion of the general rule found in Ahlo v. Tai Lung, 9 Haw. 272 (1893). Such opinion is that the general rule is "harsh" and "violative of good faith" and that courts would take out from under the rule all cases where there was "any collateral benefit received by the creditor", and that courts would depart from that rule

"on slight distinctions."

Such a distinction is found in Trousseau v. Cartwright, supra, where the Supreme Court of Hawaii held that even though a creditor could force his debtor to pay "when able" by legal process, it was adequate consideration for a contract for the debtor to promise to pay "when able".

Thus, in this case, even though Richards could have forced Air Conditioning to pay damages for failure to perform the informal contract, it was a legal detriment to Air Conditioning to agree to go ahead with the contract.

(b) There is a Well-Recognized Exception to the General Rule Called the "Unforeseen Difficulties" or "Burdensome Conditions" Exception which is Applicable to the Facts Presented in this Case.

Assuming but not conceding that the decision of the lower court is not based upon a mutua rescission of the first informal contract, the decision should nevertheless be affirmed by this court for it has long been the rule that:

"In the review of judicial proceedings the rule is settled that if the decision below is correct, it must be affirmed, although the lower court relied upon a wrong ground or gave a wrong reason [Citing many cases]" Helvering v. Gowran, 302 U.S. 238, 245 (1937).

Among those courts which follow the harsh general rule urged by the Appellants, there is substantial authority

supporting an exception to that rule, known as the "burden-
some conditions" or "unforeseen difficulties" exception. A
leading case following this exception is Linz v. Schuck, 106
Md. 220, 67 Atl. 286 (1907). In that case the parties
entered into a contract for the building of a cellar under-
neath a house which rested on shallow foundations. It was
discovered, upon the commencement of excavation, that under
a top crust, in which the original foundations were located,
the ground was soft gumbo mud, making the cost of excavation
much higher than it would have been had the character of
soil been uniform all the way down. The contractor refused
to go ahead with his contract without additional compen-
sation. An Agreement for additional compensation was entered
into and the work completed, whereupon the land owner refused
to pay more than the original contract price. The court at
page 288 held that:

"...When two parties make a contract, based on
supposed facts which they afterwards ascertain
to be incorrect, and which would not have been
entered into by the one party if he had known the
actual conditions which the contract required him
to meet, not only courts of justice but all right
thinking people must believe the fair course for
the other party to the contract to pursue is
either to relieve the contractor of going on with
his contract or to pay him additional compensation
.... Persons competent to contract can as validly
agree to rescind a contract already made as they
could agree to make it originally.... A contract
founded upon an equitable duty, such as would be

enforced by a court of equity, or upon a moral obligation, which no court of law or equity can enforce, or to do that which an honest man ought to do, or upon the waiver of a legal right by the party entitled to, it is maintained by a sufficient consideration...."

In Lange v. United States, 120 F.2d 886 (4th Cir. 1941), a case virtually on all fours with that before us, the court held that the exception to the general rule applied. In that case Lange Bros. were bidders for a contract to construct, among other things, a laundry chute for the Naval Academy. The specifications sent to Lange Bros. with reference to that chute read:

"'8-08. Clothes Chute shall be made of corrosion-resisting steel sheets not less than 0.110 inch thick and conforming to grade 1, class 4 of specification No. 47S20a'". (Id. 887)

Lange, the contractor, had never heard of symbol No. 47S20a, and, in computing his original estimate, concluded that the metal required was a copper-bearing metal which cost only 5 cents a pound. However, it turned out that symbol No. 47S20a clearly called for the use of stainless steel which cost about 46 cents a pound. It was not until some seven months later, three months after a formal contract between Lange and the United States had been signed, that Lange learned the true significance of the symbol. On such discovery notification was given to the Government that Lange Bros. could not perform at the price they had given. After some

negotiation it was agreed that Lange would perform at a substantially higher figure which would cover its costs though not provide it a profit. The Fourth Circuit Court of Appeals stated first that if the United States had noticed the extremely cheap price bid by the contractor and realized that some mistake must have been made it would not have been able to create a binding contract by moving quickly to "snap up an offer that is on its face manifestly too good to be true." (To the same effect see Geremia v. Boyarsky, 107 Conn. 387, 140 Atl. 749 (1928)).

The court in the Lange case pointed out at page 889 that:

"We are of the opinion that with the exception of the provision for a higher price, the second contract was practically identical with the first."

The court then held that though under Maryland law adherence is given to the general rule (that there is no consideration to support a promise to pay additional compensation for a previously agreed upon performance), the spirit of the Maryland cases recognized an exception:

"...an exception criticized by Williston on Contracts § 130(a), but seemingly recognized in the Restatement in § 76, Illustration 8. The exception relates to unforeseen difficulties in the performance of the contract, and is thus expressed in Linz v. Schuck, supra, 106 Md. at page 229, 67 A. at page 288, "But, where the party refusing to complete his contract does so by reason of some unforeseen and substantial difficulties in the performance of the contract, which were

not known or anticipated by the parties when the contract was entered into, and which cast upon him an additional burden not contemplated by the parties, and the opposite party promises him extra pay or benefits if he will complete his contract, and he so promises, the promise to pay is supported by a valid consideration." (at p. 890)

The court pointed out that the mistake by the contractor as to the meaning of the symbol following the specification calling for corrosion-resisting steel sheets was an "unforeseen difficulty" and fell under the exception to the general rule.

In our case, at the time the March contract bid was submitted, Air Conditioning believed that galvanized iron was the metal required, whereas, if it had not been mistaken in its examination of the specifications, it would have realized that the material called for was sheet zinc alloy. Upon discovering its mistake Air Conditioning notified Richards, informing Richards that it would not proceed on the basis of its bid without additional compensation. After considerable negotiation, the contract of September 29, 1958, was entered into to allow additional compensation to Air Conditioning for the mistake made by it in its basic assumptions as to the materials called for by the specifications at the time of entering its original bid. Thus this case falls squarely under the unforeseen difficulties exception as enunciated by the Fourth Circuit Court of Appeals in the Lange

case (and see Evergreen Amusement Corporation v. Milstead, 206 Md. 610, 112 A.2d 901 (1955), where the Maryland court approves the decision of Judge Dobie in the Lange case.)

In Pittsburgh Testing Lab. v. Farnsworth & Chambers Co., 251 F.2d 77 (10th Cir., 1958) the Tenth Circuit Court considered, under Oklahoma law, an oral contract to pay additional compensation for services required to be performed under the terms of a prior written contract. At the time of entering into the contract it was believed by the contractor that roughly 600,000 tons of overburden would have to be moved whereas after some seven months it became apparent that at least double that amount would have to be moved. The defendant promised to pay additional consideration if the contractor would proceed with the contract.

The trial court specifically found that the Testing Company performed no services pursuant to the oral contract which it was not already bound to do by the terms of the written contract. The court stated that:

"It is the general rule, followed in Oklahoma where this contract was made and performed, that a promise to pay additional compensation for the doing of that which the promisee is already legally bound to do or perform, is insufficient consideration for a valid and enforceable contract. [Citations omitted]. Of course there are exceptions to the rule, the oldest of which is the one recognized only in Massachusetts to the effect that a new promise given to the promisee who has elected not to perform a subsisting contract on penalty of damages constitutes

sufficient consideration. [Citations omitted].
But, this doctrine has been repudiated as an
exaction akin to extortion. [Citations omitted].

"Another more widely accepted exception might properly be called the 'unforeseeable difficulties exception', under which the courts have recognized the equities of a promise for additional compensation based upon extraordinary and unforeseeable difficulties in the performance of the subsisting contract. In these circumstances, the courts generally sustain the consideration for the new promise, based upon standards of honesty and fair dealing and affording adequate protection against unjust or coercive exactions. See Blakeslee v. Board of Water Commissioners of City of Hartford, 106 Conn. 642, 139 A. 106, 55 A.L.R. 1319; Grand Trunk Western R. Co. v. H. W. Nelson Co., 6 Cir. 116 F.2d 823, 834; Lange v. United States, 4 Cir. 120 F.2d 886; Evergreen Amusement Corp. v. Millstead 206 Md. 610, 112 A. 2d. 901; Restatement Contracts § 76, Comment 8; See cases and comment 12 A.L.R. 2d § 6, p. 107.

"As far as we can determine, Oklahoma courts have not had occasion to embrace or reject what seems to us a salutary exception to the rule. But, there can be no doubt that the oral contract was made in the face of unforeseen and substantial difficulties - circumstances which were not within the contemplation of the parties when the original contract was made, and which were recognized when the subsequent oral contract was entered into. The performance of the contract took more than twice as long as the parties estimated...." [Citations omitted] (Emphasis added) (Id. 78-9)

The Tenth Circuit Court in the Pittsburgh Testing Lab. case was confronted with a situation where the Oklahoma court had not ruled on the existence of the "unforeseen difficulties" exception, though it had indicated that it followed the general rule. The Court had no hesitation in applying the exception as a part of Oklahoma law, calling it

a "salutary exception to the rule."

Many cases in other jurisdictions also support the unforeseen difficulties exception. See § 6 at page 107 of 12 A.L.R. 2d 78, Anno: "Consideration for Additional Pay".

In Grand Trunk Western Ry. v. H. W. Nelson Co., 116 F.2d 823, (6th Cir. 1941) the court at page 834 stated that:

"The general rule is that a promise to pay a construction contractor additional compensation for performance of a contract which he is under obligation to perform is invalid because without consideration, but the exception is equally well recognized that where, during the prosecution of the work, some unforeseen and substantial difficulties in its performance occur which were not known or anticipated by the parties when the contract was entered into and which casts upon the contractor additional burdens not contemplated and the contractee promises the contractor extra pay or benefits if he will complete the contract, such an agreement is valid and enforceable. United States v. Cook, 257 U.S. 525, 526, 42 S. Ct. 200, 66 L. Ed. 350; Scanlon v. Northwood, 147 Mich. 139, 110 N.W. 493."

See also to the same effect: Blakeslee v. Board of Water Com'rs. 106 Conn. 642, 139 Atl. 106 (1927) and United Steel Co. v. Casey, 262 Fed. 889 (6th Cir. 1920) where the court stated at page 893 that:

"However, where a contract must be performed under burdensome conditions not anticipated, and not within the contemplation of the parties at the time the contract was made, and the promisee measures up to the right standard of honesty and fair dealing, and agrees, in view of the changed

conditions, to pay what is then reasonable, just, and fair, such new contract is not without consideration within the meaning of that term, either in law or in equity." [Citations omitted].

In the United Steel Co. case the court pointed out, in distinguishing the case of Lingenfelder v. Wainwright Brewing Co., 103 Mo. 578, 15 S.W. 844 (1891) that in the Lingenfelder case there was no reasonable excuse for the contractor's refusal to perform the work covered by the contract according to its terms. As the Missouri court had pointed out, the contractor "took advantage of Wainwright's necessities and extorted the promise" without "even the flimsy pretext that Wainwright had violated any of the conditions of the contract." (Id. 848)

The rationale applied by the Sixth Circuit in distinguishing the Lingenfelder case indicates when the general rule should be applied. The general rule should be applied, as it was in the Lingenfelder case, and also as it was in Alaska Packers' Association v. Domenico, 117 Fed. 99 (9th Cir. 1902) where there is no equitable or moral justification whatever for the demand for additional compensation. The doctrine of the Alaska Packers and Lingenfelder cases stands as protection against one party to a contract extorting a promise of additional compensation by taking advantage of the necessitous situation of the other party. Where, however, there is a clear mistake on the part of one

party to the contract as to a basic premise upon which it based its bid, which mistake would cause it substantial loss if an agreement for additional compensation were not entered into it is clear that the mistaken party has a moral claim to additional compensation, and that therefore a contractual agreement to such effect is not an agreement to meet a purely extortionary demand.

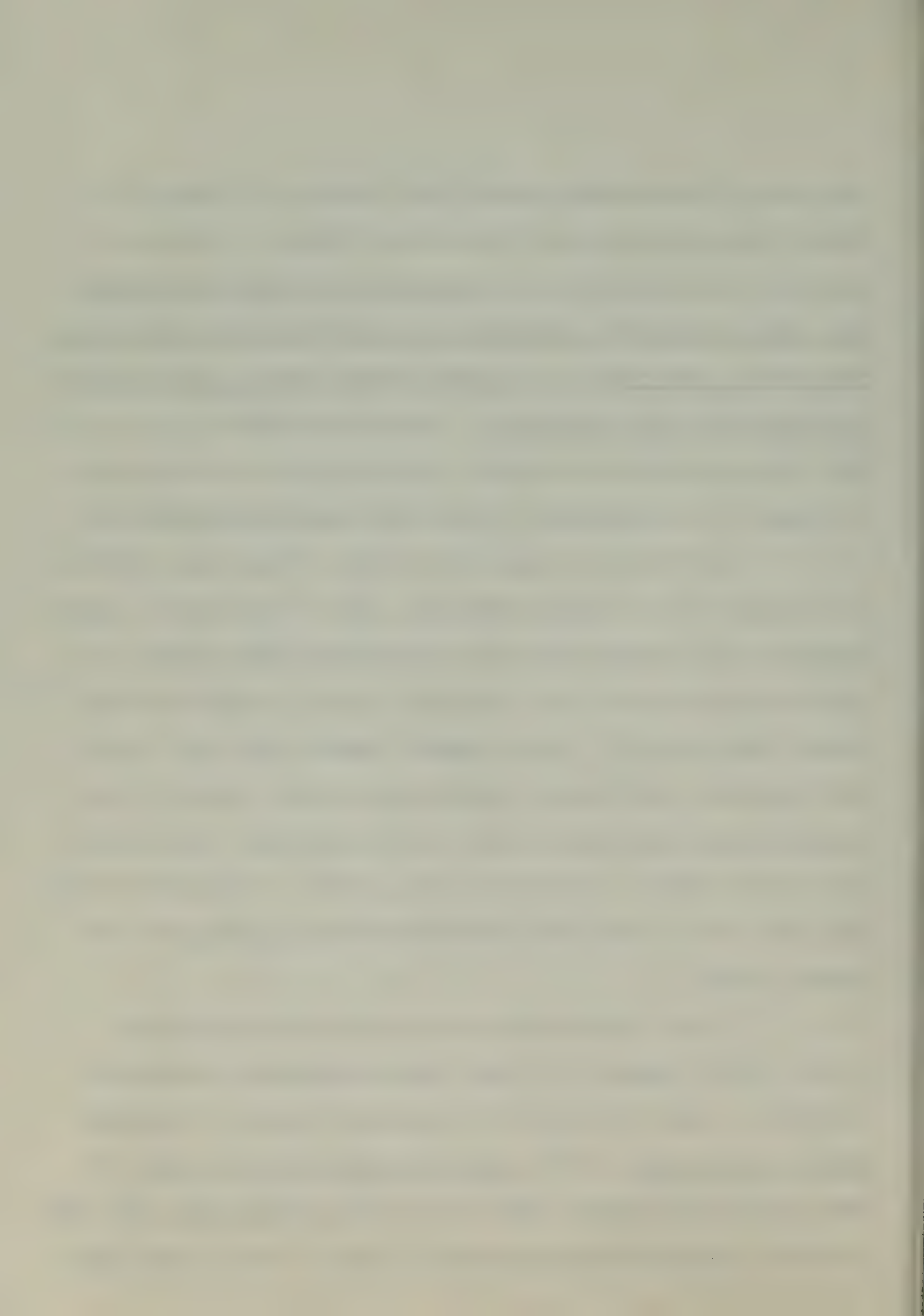
An agreement to pay additional compensation, where, as a matter of equity or morality there are grounds for such additional compensation, falls under the "burdensome conditions" or "unforeseen difficulties" exception to the general rule. This exception has been clearly recognized by the Fourth, Sixth and Tenth Circuits, by many other courts, and will, in all likelihood be recognized by the Supreme Court of the State of Hawaii at such time as the Court has an opportunity to so rule.

The rationale underlying the exception to the general rule was challenged in the Supreme Court of the United States, where, in United States v. Cook, 257 U.S. 523 (1922) an enactment agreeing to pay a contractor additional compensation for a completed job was alleged to be beyond the power of Congress, on the grounds that there was no consideration for such an enactment. The court stated that, in the light of certain unforeseen conditions which caused the

contractor considerable additional expense "it seems to us [that the] alteration of the contract [was] in response to equitable considerations... there was the moral consideration which properly induced the recognition of an honorable obligation, and turned an unenforceable equity into a binding and effective provision." (Emphasis added) (Id. 526-7). The Court held that the moral consideration was sufficient to support the enactment to pay additional consideration.

Air Conditioning, as a result of making a mistake in reading the job specifications, made a bid based on such mistake (the mistake being the erroneous substitution of galvanized iron for zinc), and has a moral claim for additional compensation. An agreement recognizing such claim and promising additional compensation if Air Conditioning would perform was entered into by the parties. Such agreement, the contract of September 29, 1958, is therefore valid and enforceable under the aforementioned exception to the general rule.

It is interesting to note that the harshness of the strict general rule has been modified or abrogated in whole or part by statute in thirteen states. See California Civil Code, § 1524; Montana Rev. Code of 1947, 58-504; N. Dakota Code of 1943, 9-1307; S. Dakota Code of 1939, 47.0236; Michigan Compiled Laws of 1948, § 566.1; New York



Personal Property Law, 33(2); Alabama Code of 1940, Title 7, 381; Oregon Comp. Laws of 1939, 2-806; Tennessee Code of 1934, 9742; Virginia Code of 1950, § 11-12; Georgia Code Ann. 1936, 20-1204; Maine Rev. St. of 1944, Chapter 100, 65.; N. Carolina Gen. Stat. 1953, Michie ed., 1-540. Certainly, where so many states have been forced to make legislative exceptions to the harsh general rule, such general rule should not be rigorously applied where there are sufficient grounds to avoid its effect by giving recognition to the "burdensome conditions" exception thereto and where the Hawaii Court has indicated its dislike of the harsh general rule.

The cases cited by Appellants do not require a contrary rule and do not support the contention made by Appellants that there is no consideration for Richards' agreement to pay additional compensation to Air Conditioning for its performance. Appellants rely primarily on the Alaska Packers case, supra, and on Williston on Contracts, § 532, which in turn relies heavily on the Lingenfelder case, supra. As pointed out earlier, both of those cases are cases where there was no justifiable reason for the contractor's refusal to perform in accordance with the terms of the original contract. Rather, such cases were cases where one party was simply taking advantage of the exigencies of the situation of the other party to the contract to extort

additional payment, without any equitable or moral justification therefor. The other cases cited by Appellants do not involve situations where there was a mistake or a later discovery of changed circumstances with reference to the basic premises underlying the creation of the contract. In other words, the cases cited by Appellants stand for the general rule but in no way negate the existence of the "unforeseen difficulties" exception to that rule, which exception, due to the clear mistake made by Appellee is applicable in this case.

The ruling of the Alaska Packers case under the facts of that case is just and proper. Never should a contractor be able to extort additional sums of money from the party for which he is performing a contract by virtue of the sole fact that he is in a position and has the inclination to extort such sums. In like manner it is just as immoral and improper for a person such as Mr. Richards in this case to entice another party into performing a contract which the other party has refused to perform by the tricky and deceitful device of promising the other that if he will perform that he will be awarded additional compensation, when in fact the deceitful party has no intention of paying the agreed additional compensation. As a practical matter, should this court make such a holding and adopt such a policy the entire

area of contract law dealing with mutual rescission and the formation of new contracts would be left in a state of doubt and chaos. Accordingly, rather than encouraging people to settle legitimate disputes by mutually rescinding an old and forming a new contract, the law would encourage litigation and economic waste. The law pertaining to mutual rescission is now certain. Certainty is desirable and necessary in the law of contracts. To cloud the area with confusion so as to protect he who would deceive another in order to obtain performance would be unwise.

(c) The Hawaii Court Would Apply the "Burdensome Conditions" Exception to This Case and Hold That the Agreement of September 1958 Was Supported by Adequate Consideration.

It is clear that, as pointed out in the Hawaii cases cited supra, the Hawaii Court has and will continue to depart from the so-called general rule whenever in equity or morality there is any basis for departing therefrom, and the parties have agreed to a new contract which implements what, in the absence of such new contract, would have remained merely an unenforceable moral obligation.

In Lange v. United States, supra, a case virtually on all fours with this case, the Fourth Circuit had no hesitation in holding that Maryland law would recognize such


an exception. In Pittsburgh Testing Lab. v. Farnsworth & Chambers Co., supra, with even less state law to guide it, the Tenth Circuit found that the Oklahoma court would follow the exception to the general rule.

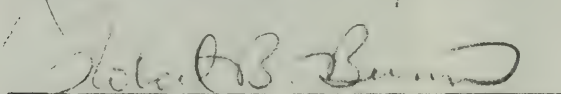
This court must now decide this case as a matter of Hawaii law. The Hawaii Supreme Court has indicated that it will, whenever possible, avoid the harsh, strict application of the general rule. The Hawaii cases justify the recognition by this court of the unforeseen difficulties exception as a matter of Hawaii law, and the facts of the case demand its application.

CONCLUSION

For the reasons stated above the judgment of the District Court should be affirmed.

Respectfully Submitted,


James S. Campbell


Robert B. Bunn

Of Counsel:

SMITH, WILD, BEEBE & CADES

4th Floor, Bishop Trust Building
Honolulu, Hawaii

No. 17752. ✓

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

EDWARD DUNBAR O'BRIEN,

Appellant,

vs.

FRANK SINATRA, *et al.*,

Appellees.

Appeal From the United States District Court for the
Southern District of California, Central Division.

BRIEF OF THE PLAINTIFF-APPELLANT.

WILLEDD ANDREWS,

126 West Third Street,
Los Angeles 13, California,

*Attorney for Edward Dunbar O'Brien,
Plaintiff-Appellant.*

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FRANK SINATRA, *et al.*,

Appellees.

Appeal From the United States District Court for the
Southern District of California, Central Division.

BRIEF OF THE PLAINTIFF-APPELLANT.

I.

Jurisdictional Statement.

The District Court had original jurisdiction, Title 28, United States Code, Section 1338(a), this cause arising under the copyright laws of the United States, Title 17, United States Code, Act of July 30, 1947, 61 Stat. 652, as amended, and the Universal Copyright Convention, as stated in Paragraph I of the Complaint [Tr. of Rec. p. 242] and Title 28, United States Code, Section 1338(a) being:

"The District Courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to . . . copyrights . . . Such jurisdiction shall be exclusive of the courts of the States in . . . copyright cases."

The United States Court of Appeals for the Ninth Circuit has jurisdiction as stated in the provision that orders, judgments or decrees arising under the copyright laws may be reviewed on appeal or writ of error, Title 17, United States Code, the Copyright Code, Section 114:

“Review of Orders, Judgments or Decrees.—The orders, judgments or decrees of any court mentioned in section 1338 of Title 28 arising under the copyright laws of the United States may be reviewed on appeal in the manner and to the extent now provided by law for the review of cases determined in said courts, respectively.”¹

II.

Summary of the Pleadings.

On Appeal by timely Notice of Appeal filed on the day of denial, August 8, 1961, from an Order of Dismissal entered July 14, 1961 of the Complaint filed May 26, 1961 and Motion to Re-consider refused hearing August 8, 1961, *Edward Dunbar O'Brien v. Frank Sinatra, et al.*, is an action for infringement of copyright and unfair competition which charges 35 combinations and re-combinations of defendants in acts of aggression against copyright properties of the Plaintiff-Appellant arising from that transaction which was the Plaintiff-Appellant's disclosure of his original works and in honorable and legitimate business practice submitting such works to the perusal of those whose pro-

¹And Rules 72-76 of the Federal Rules of Civil Procedure; Title 28, United States Code, Section 126; *Victor Talking Machine Co. v. George*, 42 USPQ 346 (CCA 3, 1939); *United States v. Carver*, 260 U. S. 490 (1923).

fession and position is that of processing, publishing, producing, performing such works.

Plaintiff is caused to complain that no single honorable or legitimate business practice was found in response from the defendants named. Rather, the copying thereof and retention of manuscripts and printed properties, inclusive of illustrative manuscript proffered by plaintiff substantiating "settlement" solicited from him by defendants.

Defendants confederated and conspired to deprive Plaintiff-Appellant of all opportunity with original work created and owned by him, and wrongfully misappropriated for their commercial advantage benefits and belongings of the Plaintiff-Appellant, prejudicing the sales and superseding the objects of the original works by plagiarism, the criminal offense of willful infringement for profit in felonious conspiracy to damage and deprive, cause loss of sales and prestige to Plaintiff-Appellant and to deceive the general public. (Plaintiff has previously subsumed the cause by citing before this Court of Appeals that the properties involved are a "library," "The Library Of A Lifetime,"—Edward Dunbar O'Brien, and that the "library has been looted.")

The above statement of the case is based-upon and compiled-from Title 17, U. S. C., Section 104, and the Copyright Decisions in

Karll v. Curtis Publishing Company (D. C. Wis.), 39 Fed. Supp. 806;

New York Tribune v. Otis & Company (D. C. N. Y.), 39 Fed. Supp. 67;

Toksig v. Bruce Publishing Company, 101 F. 2d 164;

Mathews Conveyor Company v. Palmer-Bee Company, 135 F. 2d 73, 85;
Mazer v. Stein, 347 U. S. 201;
Arnstein v. Porter, 154 F. 2d 464,

and the copyright authorities:

Nicholson, "Manual of Copyright Practice";
Howell, "The Copyright Law";
Lindey, "Plagiarism and Originality";
Weil, "The American Copyright Law";
Ball, "Law of Copyright and Literary Property";
Amdur, "Copyright, Its History and Its Law";
Bowker, "Copyright, Its History and Its Law";
Ladas, "International Protection of Literary and Artistic Property";
Wincor, "Copyright Law of the United States of America."

Against proper parties the cause of the expanded litigation, cause of action has been brought three times, defendants demurring only, admitting, avoiding answer, defaulting, and the litigation deferring or interrupting decision as in the Order on appeal herein.

The full files of all causes are before the Court, *Edward Dunbar O'Brien v. Frank Sinatra, et al.*, No. 1161-57PH; *Edward Dunbar O'Brien v. Frank Sinatra, et al.*, No. 43-59TC; *Edward Dunbar O'Brien v. Frank Sinatra, et al.*, No. 1351-60HW to be heard here-upon (as No. 17752 C. C. A. 9) and will be followed by the defendants having raised cause of action again,—demurring, admitting, deferring—(No. 17923 C. C. A. 9) unless the whole is resolved by reversal herein.

The original Complaint [Tr. of Rec. p. 1] and the Amended Complaint II [Tr. of Rec. p. 242] on appeal before this Court, against the Order of Dismissal applied to it are, nevertheless, the incontrovertible

1. Form 17 dictated by the Supreme Court from the Appendix of Forms annexed to the Federal Rules of Civil Procedure,

2. as settled in *Bobrecker v. Denebeim*, 39 U. S. P. Q. 336 (D. C. W. Mo. 1938), "it is sufficient if the petition alleges that plaintiff is the proprietor of the copyrighted work and that it has been infringed by defendant(s),"

3. and the same rule in favor of such bill laid down by the Supreme Court in *Mumm v. Decker*, 301 U. S. 168, 33 U. S. P. Q. 247 (1937), overruling eight of the Circuit Courts of Appeals respecting such bill, yet

4. "sets forth affirmatively all the acts done" (*Foreign and Domestic Music Corp. v. Twentieth Century Fox Film Corp.*, 34 U. S. P. Q. 109 (D. C. S. N. Y., 1937)),

5. and is validated by "the evidentiary value of the certificates of registration as establishing prima facie valid copyrights in the plaintiff," (*Chautauqua School v. National School*, 211 F. 1014 (D. C. W. N. Y., 1914), citing Section 55 of the Copyright Act (1909), and *Witmark v. Calloway*, 22 F. 2d 412 (D. C. E. Tenn., 1927).)

6. "admitted in any court" as such (Section 55 of the Copyright Act, 1909) and the said certificates of registration so displayed in the Courtroom herein,

7. and the Complaint supersessively substantiated by the expansive "EXHIBITS" [Tr. of Rec. pp. 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, and 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, and 102] filed in accord with Rule 2 of the Rules Adopted By The Supreme Court of the United States for Practice and Procedure Under Section 25 of An Act to Amend and Consolidate the Acts Respecting Copyright, Approved March 4, 1909, as amended, which

8. "the works themselves supersede and control any allegations or conclusions of fact about them or descriptions of them in the complaint" per *Shipman v. R.K.O. Radio Pictures, Inc.*, 35 U. S. P. Q. 242 (1937).

III.

Statutes Involved.

The Constitution of the United States, Article I, Section 8, empowers Congress: "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." wherefrom the first federal Copyright Act of May 31, 1790 (1 St. L. 124) provided "any person who shall print or publish any *manuscript* without the consent of the author or proprietor first obtained . . . be liable to such author or proprietor for . . . such injury," this fundamental remaining in:

Title 17, United States Code, Section 1:

"Exclusive Rights As To Copyrighted Works.
—Any person entitled thereto, upon complying with the provisions of this Title shall have the exclusive right: (a) To print, reprint, publish, copy,

and vend the copyrighted work; (b) to translate . . . or make any other version thereof, if it be a literary work; to dramatize it if it be a non-dramatic work; to convert it . . . if it be a drama; to arrange or adapt it if it be a musical work; (c) To deliver, authorize the delivery of, read, or present the copyrighted work in public for profit . . . ; to make or procure the making of any transcription or record thereof by or from which, in whole or in part, it may in any manner or by any method be exhibited, delivered, presented, produced or reproduced; and to exhibit, represent, produce, or reproduce it any manner whatsoever; (d) To perform or represent the copyrighted work publicly if it be a drama or . . . to vend any manuscript or any record whatsoever thereof; to make or procure the making of any transcription or record thereof by or from which, in whole or in part, it may in any manner or by any method be exhibited, performed, represented, produced, or reproduced; and to exhibit, perform, represent, produce or reproduce it in any manner or by any method whatsoever; and (e) To perform the copyright work publicly for profit . . . to make any arrangement or setting . . . in which the thought of an author may be recorded or from which it may be read or reproduced;”.

Title 17, United States Code, Section 2:

“Nothing in this title shall be construed to annul or limit the right of the author or proprietor of unpublished work . . . to prevent the copying, publication, or use of such unpublished work without his consent, and to obtain damages therefor.”

Title 17, United States Code, Section 3:

“The copyright provided by this title shall protect all . . . component parts of the work copyrighted, and all matter therein in which copyright is already subsisting . . .”

Title 17, United States Code, Section 4:

“All Writings Of Author Included.—The works for which copyright may be secured under this title shall include all the writings of an author.”
Etc.

Title 17, United States Code, Section 18:

“Making False Affidavit.—Any person who, for the purpose of obtaining registration of a claim to copyright shall knowingly make a false affidavit as to his having complied with the above conditions shall be deemed guilty of a misdemeanor and upon conviction . . . punished . . . and all of his rights and privileges under said copyright shall thereafter be forfeited.”

Title 17, United States Code, Section 101:

“INFRINGEMENT.—If any person shall infringe the copyright in any work protected under the copyright laws of the United States such person shall be liable:

(a) To an injunction . . .

(b) Damages and Profits;—To pay to the copyright proprietor . . . all the profits which the infringer shall have made from such infringement . . . nor shall . . . limitation as to the amount of recovery apply . . . after actual notice to a defendant, either by service of process in a suit or other written notice served upon him.”

“Fourth. In the case of dramatic or dramatico-musical . . . for every subsequent infringing performance. . . .” Etc.

Title 17, United States Code, Section 104:

“Willful Infringement For Profit.—Any person who willfully and for profit shall infringe any copyright secured by this title, or who shall knowingly and willfully aid and abet such infringement, shall be guilty of a misdemeanor, . . .”

The Appendix of Forms annexed to the Federal Rules of Civil Procedure furnishes the following form of Complaint for Infringement of Copyright and Unfair Competition, indicating the simplicity and brevity which the rules contemplate:

Form 17—Complaint For Infringement of Copyright and Unfair Competition.

1. Allegation of jurisdiction.

2. Prior to . . . plaintiff, who then was and ever since has been a citizen of the United States, created and wrote an original book, entitled . . .

3. This book contains a large amount of material wholly original with plaintiff and is copyrightable subject matter under the laws of the United States.

4. Between . . . , and . . . , plaintiff complied in all respects with the Act of (give citation) and all other laws governing copyright and secured the exclusive rights and privileges in and to the copyright of said book, and received from the Register of Copyrights a certificate of registration, dated and identified as follows: Date, Class. . . . No.

5. Since . . . , said book has been published by plaintiff and all copies of it made by plaintiff or under his authority or license have been printed, bound, and published in strict conformity with the provisions of the Act of . . . and all other laws governing copyright.

6. Since . . . , plaintiff has been and still is the sole proprietor of all rights, title and interest in and to the copyright in said book.

7. After . . . , defendant infringed said copyright by publishing and placing upon the market a book entitled . . . , which was copied largely from plaintiff's copyrighted book, entitled . . .

8. A copy of plaintiff's copyrighted book is hereto attached as "Exhibit 1"; and a copy of defendant's infringing book is hereto attached as "Exhibit 2".

9. Plaintiff has notified defendant that defendant has infringed the copyright of plaintiff, and defendant has continued to infringe the copyright.

Wherefore plaintiff demands:

(1) That defendant, his agents, and servants be enjoined during the pendency of this action and permanently from infringing said copyright of said plaintiff in any manner.

(2) That defendant be required to pay to plaintiff such damages as plaintiff has sustained in consequence of defendant's infringement of said copyright and to

account and pay over to plaintiff all the gains, profits and advantages derived by defendant from his infringement of plaintiff's copyright or such damages as to the court shall appear proper within the provisions of the copyright statutes, but not less than.....

(3) That defendant be required to deliver up to be impounded during the pendency of this action all copies in his possession or under his control infringing said copyright and to deliver up for destruction all infringing copies and all plates, molds, and other matter for making such infringing copies.

(4) That defendant pay to plaintiff the costs of this action and reasonable attorney's fees to be allowed to the plaintiff by the court.

(5) That plaintiff have such other and further relief as is just.

Rule 73, F. R. C. P.: Appeal to a Court of Appeals (a) Within 30 days. (b) Notice of Appeal.

Rule 74, F. R. C. P.: Joint or Several Appeals to the Supreme Court or to a Court of Appeals; Summons and Severance Abolished.

Rule 75, F. R. C. P.: Record on Appeal to a Court of Appeals (a) Designation of Contents of Record on Appeal, (the Transcript of record herein is the complete record). (b) Reporter's Transcript, (all proceedings herein are complete).

IV.

Statement of the Case and Questions Presented.

Complaint, of itself invulnerable,—Form 17, validated by the Certificates of Registration, and substantiated by the expansive “EXHIBITS,” reads as follows [Tr. of Rec. pp. 248-260]:

“In the United States District Court, Southern District of California, Central Division.

Edward Dunbar O'Brien v. Frank Sinatra, Henry Sanicola, William Morris Agency, Inc., Dore Schary, Sol Siegel, Metro-Goldwyn-Mayer, Inc., Samuel Goldwyn, Rudolf Monta, Joseph Pasternak, Harry Lillis Crosby, George Murphy, Cole Porter, John Patrick, Sammy Cahn, Nicholas Brodzsky, Helen Rose, George Wells, June Allison, Lauren Bacall, Gregory Peck, Broderick Crawford, George Seaton, Gordon Jenkins, Capitol Records, Inc., Warner Brothers Pictures, Inc., National Broadcasting Company, Inc., Columbia Broadcasting System, Inc., American Broadcasting Company-Paramount Theatres, Inc., Liggett & Myers Tobacco Company, Inc., Bulova Watch Company, General Motors Corporation, Decca Records, Inc. Civil Action No. 1351-60HW.

AMENDED COMPLAINT II FOR INFRINGEMENT OF COPYRIGHT AND UNFAIR COMPETITION.

Comes Now The Plaintiff, Edward Dunbar O'Brien, and by leave of Court first had and obtained, for cause of action alleges:

I.

The Court has original jurisdiction, Title 28, United States Code, Section 1338(a), this cause arising under the copyright laws of the United States, Title 17, United States Code, Copyright Code, Act of July 30, 1947, 61 Stat. 652, as amended, and the Universal Copyright Convention.

II.

The plaintiff is a citizen of the United States and resident of the State of California, and the defendants, where individuals, are domiciled, and where corporations, are domesticated in the State of California, in the jurisdiction of the United States District Court for the Southern District of California, Central Division, and the parties are therefore properly before the Court.

III.

That plaintiff at all times mentioned herein has been and he is now engaged in the business of creating and writing original books and music and publishing the same under the name of Edward Dunbar O'Brien and 'O'Brien Music,' the said containing material wholly original with plaintiff and copyrightable subject matter under the laws of the United States, and specifically and ever since the year 1941 the plaintiff has complied in all respects with the copyright laws of the United States and secured the exclusive rights and privileges in and to the copyright of the said books and music and received from the Register of Copyrights the universal and individual certificates of registration dated and identified as follows:

'The Library Of A Lifetime'—Edward Dunbar
O'Brien A283713 12/31/56;

'The Gettysburg Hymn,' Eu373849 5/1/44, 1st
Edition E96858 1/12/56; 3rd Edition E104688
8/18/56; 4th Edition A283713 12/31/56, from
'The Proclamation,' A283713 12/31/56 and
Eu268782 9/2/41 and Eu375473 12/4/43 and
Eu373848 5/1/44;

'45th, — From Broadway To 8th Avenue,'
Eu402496 7/12/55, Eu36654 8/25/46, catalogue
E96858 1/12/56, catalogue E104688 8/18/56,
A283713 12/31/56;

'Concerto of Two Hearts,' Eu51047 8/25/46
and A283713 12/31/56 and Eu394199 4/15/55
and Eu394157 4/19/55 and catalogues E96858
1/12/56 and E104688 8/18/56;

'Lover's Hour,' E98320 4/2/56 and A283713
12/31/56 and catalogues E96858 1/12/56 and
E104688 8/18/56;

'Miss Beautiful, Please Will You Be Mrs. Me?'
E98691 4/25/56 and catalogue E104688 8/18/56,
A283713 12/31/56;

'Paddlewheel', A283713 12/31/56 and Eu36653
8/25/46 and catalogue E96858 1/12/56,
E104688 8/18/56;

'Heartstrings,—Music On The Heartstrings'
A283713 12/31/56, and catalogues E96858 1/
12/56, E104688 8/18/56, and Eu419511 12/12/
55, E104689 12/26/56, E115277 1/4/57,
E115276 1/4/57;

'The Eve—Christmas Cards,' A283713 12/31/56, catalogue E104688 8/18/56 and E104690 12/7/56;

'Buddies,—The Story of The Gettysburg Hymn,' A283713 12/31/56 and catalogue E104688 8/18/56, and E98320 4/2/56 and E98691 4/25/56 and Eu375474 12/4/43;

'Call Me Mom.,' A283713 12/31/56, catalogue E96858 1/12/56 and E104688 8/18/56 and E98320 4/2/56;

'The 2nd Battle of Gettysburg,—SEE?' A283713 12/31/56.

IV.

That plaintiff created and wrote the original books and music in Paragraph III above, and all of the original books and music inclusive thereof and comprehended in the 'Library Of A Lifetime' of Edward Dunbar O'Brien, certificate of registration A283713 12/31/56.

V.

Since September 2, 1941, plaintiff has been and is now the sole proprietor of all rights, title and interest in and to the copyrights in the said books and music.

VI.

Since January 12, 1955, said books and music have been published by plaintiff and all copies thereof created thereby, written and made under the license and authority of said copyright proprietorship have been printed, bound and published in strict conformity with all of the laws governing copyright.

VII.

Plaintiff is informed and believes, and therefore alleges, that the defendant Frank Sinatra has been at all times mentioned herein and is now the owner and in charge of the business transactions conducted by 'Barton Music Publishers, Inc.,' a corporation, and that the said Frank Sinatra is therefore the 'alter ego' of such corporation.

Plaintiff is informed and believes, and therefore alleges, that the defendant Harry Lillis Crosby at all times mentioned herein has been and is now the owner and in charge of the business transactions conducted by 'Bing Crosby Enterprises, Inc.,' a corporation, and that the said Harry Lillis Crosby is therefore the 'alter ego' of such corporation.

Plaintiff is informed and believes, and therefore alleges, that the defendant Columbia Broadcasting System, Inc., at all times mentioned herein has been and is now the owner and in charge of the business transactions conducted by 'Bing Crosby Enterprises, Inc.,' a corporation, and that the said Columbia Broadcasting System, Inc., is therefore the 'alter ego' of such corporation. Plaintiff is informed and believes, and therefore alleges, that the defendant Samuel Goldwyn at all times mentioned herein has been and is now owner and in charge of the business transactions conducted by 'Metro-Goldwyn-Mayer, Inc.,' a corporation, and that the said Samuel Goldwyn is therefore the 'alter ego' of such corporation.

VIII.

After July 12, 1955, defendants conspired and confederated, combined, concerted and agreed to infringe, and they have infringed said copyrights by copying and appropriating from manuscript and printed copies thereof and private letters of plaintiff referring thereto, submitted and communicated to defendants and retained in the possession of the defendants, and by marketing, exhibiting and selling to the general public against the will and secretly and without the consent, authority or license of the plaintiff, copyright proprietor, and by using the language, dialogue, wordings, writing, sequence, story, songs, lyrics, scenes, settings, costumes, characters, sense, substance, point, purpose, expression and effect of the plaintiff's copyrighted writings and private letters the motion pictures: 'High Society,' 'The Opposite Sex,' 'Designing Woman,' 'Wings of Victory,' 'The Joker Is Wild,' or 'The Joker,' 'Royal Wedding,' 'Gigi,' 'Say One For Me'; the musical 'Manhattan Tower'; the programs: 'Entertainment Programs, National Conventions of 1956,' the 'Democratic Fund-Raising Program, October 20, 1956,' the 'Frank Sinatra Show, 1957-58' and the same May, 1960, and November, 1960, the 'Bing Crosby Show,' October, 1958 and September, 1959; the record album 'Lover's Hour'; the songs: '11th Hour Melody' and 'Mr. Success'; the play: 'The Defender'; press releases; the 'Academy Awards Ceremonies,' 1957, 1958, 1959; broadcast: 'Ed Sullivan Show,' February, 1959, and re-performance of the motion pictures: 'High Society,' March 22-28, 1961, 'Designing Woman,'

April 5-11, 1961 and re-broadcasts from the motion picture 'High Society,' March 5, 1961 and May 2, 1961, by and in the following manner and means:

1. July 12, 1955, plaintiff furnished to the defendant Broderick Crawford the volumes of '45th,—From Broadway To 8th Avenue' of plaintiff, to submit to the defendant Frank Sinatra, and from which the motion pictures 'High Society,' 'The Opposite Sex,' 'Wings of Victory,' 'Designing Woman,' 'Royal Wedding,' 'Say One For Me' are copied, the said volumes of '45th,—From Broadway To 8th Avenue' of plaintiff continuing to be retained in defendants' possession.

2. September 2, 1955, plaintiff furnished to the defendant William Morris Agency, Inc., the volumes of '45th,—From Broadway To 8th Avenue,' 'Concerto of Two Hearts,' and 'Paddlewheel,' of plaintiff, and from which the motion pictures 'High Society,' 'The Opposite Sex,' 'Designing Woman,' 'Royal Wedding,' 'Gigi,' 'Say One For Me,' and the song 'Mr. Success,' and the 'Frank Sinatra Show,' 1957-58 and press releases there-concerning are copied, copies of the said volumes of plaintiff continuing to be retained in defendants' possession.

3. March, 1956, the defendant Dore Schary, producer, and defendant Warner Brothers Pictures, Inc., a Delaware corporation, manufacturer, exhibited to the general public the motion picture 'Wings of Victory' copying from the said '45th,—From Broadway to 8th Avenue,' of the plaintiff as above obtained.

4. August 13, 1956, defendants Frank Sinatra, actor-singer; Dore Schary, now producer for defendant Metro-Goldwyn-Mayer, Inc., a Delaware corporation, Henry Sanicola, manager of the defendant Frank Sinatra, and defendant William Morris Agency, Inc., a New York corporation, forcibly appropriated from plaintiff the Entertainment Program of the Democratic National Convention of 1956, and forcibly displaced plaintiff and the copyright property 'The Gettysburg Hymn' of plaintiff from such program proposed by plaintiff and communicated to the said defendants thereby, the said defendants publicly announcing their intent of using such program to advertise the motion picture 'High Society,' and the said displacement of plaintiff from such program proposed by plaintiff involving the displacement and disparagement of 'The Gettysburg Hymn' of plaintiff previously submitted to defendant Columbia Broadcasting System, Inc., a California corporation, and defendant Frank Sinatra in manuscript January 12, 1955, the said manuscript continuing to be retained in the possession of the defendant Frank Sinatra.

5. August 20, 1956, defendant George Murphy, public relations officer of defendant Metro-Goldwyn-Mayer, Inc., a Delaware corporation, appropriated the Entertainment Program of the Republican National Convention of 1956 from plaintiff, displacing plaintiff from such program proposed by plaintiff and communicated to defendant George Murphy thereby.

6. August 28, 1956, the motion picture 'High Society' was exhibited to the general public dis-

playing therein the copying of the volumes of '45th,—From Broadway To 8th Avenue' of plaintiff and 'Lover's Hour,' and 'Miss Beautiful, Please Will You Be Mrs. Me?' thereof by the defendants Frank Sinatra, actor-singer, Harry Lillis Crosby, actor-singer, Metro-Goldwyn-Mayer, Inc., a Delaware corporation, manufacturer, Dore Schary, 'Chief of Production' thereof, Sol Siegel, producer, 'music and lyrics' by defendant Cole Porter, 'written by' defendant John Patrick, 'designer' defendant Helen Rose, advertised by defendant George Murphy, public relations officer of defendant Metro-Goldwyn-Mayer, Inc., recorded by defendant Capitol Records, Inc., a California corporation, from the copies of the volumes of '45th,—From Broadway To 8th Avenue' of plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, Inc., a New York corporation.

7. Defendant Capitol Records, Inc., a California corporation, infringed the 'Lover's Hour' of plaintiff from April, 1956, by circulating, broadcasting and selling to the general public the recording '11th Hour Melody' copying and appropriating from the lyrics of the said 'Lover's Hour' of plaintiff.

8. August 30, 1956, plaintiff notified the defendants that defendants infringed copyrights of the plaintiff in the motion picture 'High Society.' The defendants Frank Sinatra, Dore Schary, Henry Sanicola, manager of defendant Frank Sinatra, William Morris Agency, Inc., a New York corporation, copied and appropriated the statements of

plaintiff in such communication and published and broadcast the same in the 'Democratic Fund-Raising Program of October 20, 1956' thereby giving publication to a private letter without the consent of the writer or authority of law, and infringing therefore the same.

9. October 23, 1956, defendants exhibited to the general public the motion picture 'The Opposite Sex' displaying therein the copying of the volumes of '45th—From Broadway To 8th Avenue' and 'Concerto of Two Hearts' of plaintiff by defendants Metro-Goldwyn-Mayer, Inc., a Delaware corporation, Dore Schary, 'Chief of Production' thereof, June Allison, actress-singer, Joseph Pasternak, producer, 'music and lyrics' by defendant Sammy Cahn and Nicholas Brodzsky, advertised by defendant George Murphy, and with the motion picture 'High Society' authorized by defendant Samuel Goldwyn, defended by threatening communication to the plaintiff by defendant Rudolf Monta, employee representing the defendant Metro-Goldwyn-Mayer, Inc., a Delaware corporation, the said motion picture 'The Opposite Sex' made by copying from the volumes of '45th,—From Broadway To 8th Avenue' of plaintiff furnished to the defendant Broderick Crawford thereby, and the copies of '45th,—From Broadway To 8th Avenue' and 'Concerto of Two Hearts' of plaintiff in the possession of defendant William Morris Agency, Inc.

10. October 26, 1956, the defendant Gordon Jenkins, National Broadcasting Company, Inc., a Delaware corporation, General Motors Corporation, a Delaware corporation, infringed the work 'Heart-

strings,—Music On The Heartstrings,' of plaintiff by copying and appropriating therefrom and by exhibiting the said copying and appropriations therefrom to the general public under the name style and title of the musical 'Manhattan Tower,' written by defendant Gordon Jenkins, broadcast by defendant National Broadcasting Company, Inc., a Delaware corporation, the said broadcast sponsored by the defendant General Motors Corporation, a Delaware corporation, and such musical recorded by defendant Capitol Records, Inc., a California corporation.

11. From September, 1956, defendant Frank Sinatra, manager Henry Sanicola and agent William Morris Agency, Inc., a New York corporation, copied from a private letter written by plaintiff and sent through the United States mails to the defendant Frank Sinatra, and thereafter advertised a motion picture under the name, style and title of 'The Joker,' as copied from the said private letter and thereby giving publication thereto without the consent of the writer or authority of law and infringing therefore the same.

12. February, 1957, defendant National Broadcasting Company, Inc., a Delaware corporation, broadcast the musical under the name, style and title 'Ruggles of Red Gap,' with the intent of infringing 'The Gettysburg Hymn' and 'Buddies,—The Story of The Gettysburg Hymn' of plaintiff submitted thereby to the said defendant.

13. February 18, 1957, defendant Columbia Broadcasting System, Inc., a California corpora-

tion, infringed the work 'Buddies,—The Story of The Gettysburg Hymn' of plaintiff by copying therefrom and altering and advertising 'The Defender' and exhibiting the same to the general public as copied from 'Buddies,—The Story of The Gettysburg Hymn' of plaintiff.

14. March, 1957, defendants Metro-Goldwyn-Mayer, Inc., a Delaware corporation, manufacturer, Dore Schary, 'Chief of Production' thereof, under authority of defendant Samuel Goldwyn, presenting the performers defendant Lauren Bacall and Gregory Peck, 'written by' defendant George Wells, 'designed' and 'suggested by' defendant Helen Rose, advertised by defendant George Murphy, public relations officer of defendant Metro-Goldwyn-Mayer, Inc., a Delaware corporation, infringe '45th,—From Broadway To 8th Avenue' of plaintiff by copying the motion picture 'Designing Woman' therefrom and exhibiting the said motion picture to the general public, copied from the volumes of the said '45th,—From Broadway To 8th Avenue' of plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, Inc., a New York corporation.

15. April, 1957, defendant George Seaton, president, the Academy of Motion Picture Arts and Sciences, broadcast by defendant National Broadcasting Company, Inc., a Delaware corporation, with the defendants Frank Sinatra, Harry Lillis Crosby, Henry Sanicola, Metro-Goldwyn-Mayer, Inc., a Delaware corporation, Dore Schary, Sol Siegel, Cole Porter, John Patrick, Helen Rose, George Murphy, Capitol Records, Inc., a California

corporation, infringed the said copyrights of the plaintiff by exhibiting to the general public from the motion picture 'High Society' copied from the volumes of '45th,—From Broadway To 8th Avenue' of plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, Inc., a New York corporation.

16. December, 1956 to January 25, 1958, defendants Frank Sinatra, Henry Sanicola, William Morris Agency, Inc., a New York corporation, infringed '45th,—From Broadway To 8th Avenue' and 'Concerto of Two Hearts' of plaintiff by copying therefrom and exhibiting and publishing to the general public said copying by press releases copied from the volumes of the said '45th,—From Broadway To 8th Avenue' and 'Concerto of Two Hearts' of plaintiff submitted thereby to the said defendants.

17. February, 1957, defendants Metro-Goldwyn Mayer, Inc. a Delaware corporation, manufacturer; Dore Schary, producer; authorized by defendant Samuel Goldwyn; advertised by defendant George Murphy; broadcast by defendant Columbia Broadcasting System, Inc., a California corporation, infringed '45th,—From Broadway To 8th Avenue' of plaintiff by copying therefrom and exhibiting said copying to the general public under the name, style and title of the motion picture 'Royal Wedding,' copied from the volumes of the said '45th,—From Broadway To 8th Avenue' of plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, Inc., a New York corporation.

18. October, 1957, to June, 1958, defendants Frank Sinatra, manager Henry Sanicola, William Morris Agency, Inc., a New York corporation, broadcaster American Broadcasting Company-Paramount Theatres, Inc., a California corporation, sponsored by defendants Liggett & Myers Tobacco Company, a New Jersey corporation, and Bulova Watch Company-Bulova Research and Development Corporation, a California corporation, infringed '45th,—From Broadway To 8th Avenue,' 'Concerto of Two Hearts' and private letters of plaintiff by copying therefrom and exhibiting said copying to the general public under the name, style, and title of the 'Frank Sinatra Show,' copied from the volumes of said works of plaintiff submitted thereby to the defendant William Morris Agency, Inc., a New York corporation, and private letters of plaintiff sent through the United States mails addressed to the said defendant Frank Sinatra.

19. April, 1958, defendant George Seaton, president, the Academy of Motion Picture Arts and Sciences, broadcast by defendant National Broadcasting Company, Inc., a Delaware corporation, with the defendants Metro-Goldwyn-Mayer, Inc., a Delaware corporation, manufacturer; Dore Schary, producer, under authority of defendant Samuel Goldwyn, defendants Lauren Bacall, Gregory Peck, George Wells, Helen Rose, George Murphy, infringed '45th,—From Broadway To 8th Avenue' of plaintiff by exhibiting to the general public the motion picture 'Designing Woman' copied from the volumes of the said '45th—From Broadway To 8th Avenue' of plaintiff submitted thereby to

the defendants Broderick Crawford and William Morris Agency, Inc., a New York corporation.

20. April 7-27, 1958, defendant Decca Records, Inc., a California corporation, and defendant Columbia Broadcasting System, Inc., a California corporation, broadcaster, infringed the 'Lover's Hour' copyrights of the plaintiff by copying the same and exhibiting said copy to the general public without the authority, license or consent of the said copyright proprietor.

21. April 18, 1958, terms of settlement for the acts of defendants herein, solicited from the plaintiff by defendants National Broadcasting Company, Inc., a Delaware corporation; Columbia Broadcasting System, Inc., a California corporation, General Motors Corporation, a Delaware corporation, and Decca Records, Inc., a California corporation, were furnished to the defendants National Broadcasting Company, Inc., and Columbia Broadcasting System, Inc., by the plaintiff, sent through the United States mails addressed to the representatives of the said defendants National Broadcasting Company, Inc., and Columbia Broadcasting System, Inc., and respecting the manuscript copy of 'Heartstrings,—Music On The Heartstrings' of plaintiff demonstrating the infringement thereof charged in this Paragraph VIII, sub-paragraph 10, lines 10 to 21, page 8 of this Amended Complaint II.

Thereafter, the defendants National Broadcasting Company, Inc., a Delaware corporation, and Columbia Broadcasting System, Inc., a California corporation, infringed the said settlement state-

ments solicited from the plaintiff thereby, by copying and exhibiting and broadcasting said copying to the general public, thereby giving publication to a private letter without the consent of the writer or authority of law and infringing therefore the same. The defendants National Broadcasting Company, Inc., a Delaware corporation, and Columbia Broadcasting System, Inc., a California corporation, further, retain in their possession the manuscript copy of 'Heartstrings,—Music On The Heartstrings' of plaintiff mentioned herein.

22. July 9, 1958, the defendants William Morris Agency, Inc., a New York corporation, and Sammy Cahn infringed the 'Concerto of Two Hearts' of plaintiff by copying therefrom and exhibiting said copying to the general public by press release copied from the volume of the said 'Concerto of Two Hearts' of plaintiff submitted thereby to defendant William Morris Agency, Inc., a New York corporation.

23. 1958, defendants Metro-Goldwyn-Mayer, Inc., a Delaware corporation, manufacturer; Dore Schary, producer, under authority of defendant Samuel Goldwyn, advertised by defendant George Murphy, public relations officer of defendant Metro-Goldwyn-Mayer, Inc., and defendant William Morris Agency, Inc., a New York corporation, infringed 'Concerto of Two Hearts' of plaintiff by copying therefrom and exhibiting said copying to the general public under the name, style and title of the motion picture 'Gigi,' copied from the said 'Concerto of Two Hearts' of plaintiff submitted

thereby to the defendant William Morris Agency, Inc., a New York corporation.

24. October 1, 1958, defendants Harry Lillis Crosby and American Broadcasting Company-Paramount Theatres, Inc., a California corporation, infringed the said copyrights of the plaintiff in Paragraph III of this Amended Complaint II and referred-to in Paragraph VIII, sub-paragraph 6, 'High Society,' lines 29-32, page 6, and 1-10, page 7 hereof, by copying therefrom and by exhibiting and broadcasting to the general public the said copying in the motion picture 'High Society' under the name, style and title of the 'Bing Crosby Show,' October 1, 1958.

25. October, 1958, the defendant Frank Sinatra, Henry Sanicola, a William Morris Agency, Inc., a New York corporation, infringed '45th,—From Broadway To 8th Avenue' of plaintiff by copying therefrom and exhibiting and broadcasting and selling to the general public the said copying under the name, style and title of the song 'Mr. Success' copied from the volumes of the said '45th,—From Broadway To 8th Avenue' of plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, Inc., a New York corporation.

26. December, 1958, and through the year 1959, defendants Harry Lillis Crosby and Sammy Cahn infringed '45th,—From Broadway To 8th Avenue' and 'The Eve-Christmas Cards' of plaintiff by copying therefrom and exhibiting the said copying to the general public under the name, style

and title of the motion picture 'Say One For Me,' manufactured by 'Bing Crosby Enterprises, Inc.,' a California corporation.

27. February 8, 1959, defendant Columbia Broadcasting System, Inc., a California corporation, infringed 'The Gettysburg Hymn,' 'Buddies —The Story of The Gettysburg Hymn' of plaintiff and private letters given publication without the consent of the writer or authority of law and infringed therefore by said defendant Columbia Broadcasting System, Inc., by copying and exhibiting to the general public program proposed and submitted thereto by the plaintiff January 12, 1955, January 12, 1956, January 12, 1957, and again January 22, 1959, the said copying presented to the general public by the defendant Columbia Broadcasting System, Inc., a California corporation, under the name, style and title of the 'Ed Sullivan Show, February 8, 1959.'

28. April, 1959, defendants George Seaton, president, the Academy of Motion Picture Arts and Sciences, National Broadcasting Company, Inc., a Delaware corporation, broadcaster, Metro-Goldwyn-Mayer, Inc., a Delaware corporation, manufacturer, Dore Scharf, producer, under authority of defendant Samuel Goldwyn, advertised by defendant George Murphy, public relations officer of defendant Metro-Goldwyn-Mayer, Inc., and defendant William Morris Agency, Inc., a New York corporation, infringed 'Concerto of Two Hearts' of plaintiff by copying therefrom and exhibiting the said copying to the general public under the name, style and title of the motion picture 'Gigi' copied

from the said 'Concerto of Two Hearts' of plaintiff submitted thereby to the defendant William Morris Agency, Inc., a New York corporation.

29. September 29, 1959, defendant Harry Lillis Crosby, defendant Frank Sinatra, and defendant American Broadcasting Company-Paramount Theatres, Inc., a California corporation, infringed the said copyrights of the plaintiff in Paragraph III of this Amended Complaint II and referred-to in Paragraph VIII, sub-paragraph 6, 'High Society,' lines 29-32, page 6, and 1-10, page 7 hereof by copying therefrom and by exhibiting and broadcasting to the general public the said copying in the motion picture 'High Society,' by the defendants Frank Sinatra, Harry Lillis Crosby, Metro-Goldwyn-Mayer, Inc., Dore Schary, Sol Siegel, Cole Porter, John Patrick, Helen Rose, George Murphy, Capitol Records, Inc., Samuel Goldwyn, from the copies of the volumes under the said copyrights of the plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, Inc., a New York corporation, the said infringement here dated and described being broadcast by the defendants Harry Lillis Crosby, Frank Sinatra and American Broadcasting Company-Paramount Theatres, Inc., a California corporation, under the name, style and title of the 'Bing Crosby Show,' September 29, 1959.

30. May, 1960, defendant Frank Sinatra and Sammy Cahn, Henry Sanicola, William Morris Agency, Inc., a New York Corporation, and American Broadcasting Company-Paramount Theatres,

Inc., a California corporation, infringe the said copyrights of the plaintiff, 'The 2nd Battle of Gettysburg,—SEE?' and the 'Library Of A Lifetime' therefore by copying therefrom and by exhibiting and broadcasting to the general public the said copying under the name, style and title of the 'Frank Sinatra Show, May, 1960.'

31. November 1, 1960, defendants Frank Sinatra, Henry Sanicola, William Morris Agency, Inc., a New York corporation, and American Broadcasting Company-Paramount Theatres, Inc., a California corporation, infringed the said copyrights of the plaintiff in Paragraph III of this Amended Complaint II and referred-to in Paragraph VIII, sub-paragraph 6, 'High Society,' lines 29-32, page 6, and 1-10, page 7 hereof by copying therefrom and exhibiting and broadcasting to the general public the said copying under the name, the 'Frank Sinatra Show,' in the motion picture 'High Society,' copied by the defendants Frank Sinatra, Harry Lillis Crosby, Metro-Goldwyn-Mayer, Inc., Dore Schary, Sol Siegel, Cole Porter, John Patrick, Helen Rose, George Murphy, Capitol Records, Inc., Samuel Goldwyn, from the copies of the columns under the said copyrights of the plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, Inc.

32. March 5, 1961, the defendant Columbia Broadcasting System, Inc., a California corporation, infringed said copyrights of the plaintiff by copying therefrom and by exhibiting and broadcasting to the general public the said copying un-

der the name, style and title of the 'Ed Sullivan Show, March 5, 1961,' in the motion picture 'High Society,' copied by the defendants Frank Sinatra, Harry Lillis Crosby, Metro-Goldwyn-Mayer, Inc., Dore Schary, Sol Siegel, Cole Porter, John Patrick, Helen Rose, George Murphy, Capitol Records, Inc., Samuel Goldwyn, from the copies of the volumes under the said copyrights of the plaintiff submitted thereby the defendants Broderick Crawford and William Morris Agency, Inc.

33. March 22-28, 1961, defendants Frank Sinatra, Harry Lillis Crosby, Metro-Goldwyn-Mayer, Inc., a Delaware corporation, Dore Schary, Sol Siegel, Cole Porter, John Patrick, Helen Rose, George Murphy, Capitol Records, Inc., a California corporation, Samuel Goldwyn, infringed the said copyrights of the plaintiff in Paragraph III of this Amended Complaint II and referred-to in Paragraph VIII, sub-paragraph 6, 'High Society,' lines 29-32, page 6 and 1-10, page 7 hereof by the copying therefrom and by re-exhibiting to the general public the said copying under the name, style and title of the motion picture 'High Society,' copied by the said defendants from the copies of the volumes under the said copyrights of the plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, a New York corporation.

34. April 5-10, 1961, defendants Metro-Goldwyn-Mayer, Inc., a Delaware corporation, Dore Schary, Samuel Goldwyn, Lauren Bacall, Gregory Peck, George Wells, Helen Rose, George Murphy,

William Morris Agency, Inc., a New York corporation, infringed the said copyrights of the plaintiff in Paragraph III of this Amended Complaint II and referred-to in Paragraph VIII of this Amended Complaint II, sub-paragraph 14, lines 7-19, page 9 hereof by the copying therefrom and by re-exhibiting to the general public the said copying under the name, style and title of the motion picture 'Designing Woman,' copied by the said defendants from the copies of the volumes under the said copyrights of the plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, Inc., a New York corporation.

35. May 2, 1961, the defendant Columbia Broadcasting System, Inc., a California corporation, infringed the said copyrights of the plaintiff by copying therefrom and by exhibiting and broadcasting to the general public the said copying under the name, style and title of the motion picture 'High Society,' copied by the defendants Frank Sinatra, Harry Lillis Crosby, Metro-Goldwyn-Mayer, Inc., a Delaware corporation, Dore Schary, Sol Siegel, Cole Porter, John Patrick, Helen Rose, George Murphy, Capitol Records, Inc., a California corporation, Samuel Goldwyn, from the copies of the volumes under the said copyrights of the plaintiff submitted thereby to the defendants Broderick Crawford and William Morris Agency, Inc., a New York corporation.

IX.

Copies of plaintiff's copyrighted works and copies of defendants' infringing works are filed with the Clerk of the United States District Court for the Southern District of California, Central Division, marked 'EXHIBITS.'

X.

Plaintiff has notified the defendants that defendants infringed the copyrights of the plaintiff and defendants have continued to infringe said copyrights, defendants at all times mentioned herein aware and apprised of said copyrights and infringing said copyrights with the intent of depriving plaintiff, the copyright proprietor, of the benefits due him thereunder and for the purpose of profiting defendants.

XI.

Defendants, since January 12, 1955, have thereby been engaged in unfair trade practices and unfair competition against plaintiff to plaintiff's irreparable damage.

Wherefore, plaintiff demands:

1. That the defendants, their agents and servants and attorneys, and all persons in active concert and participation with them be enjoined during the pendency of this action and permanently from infringing the said copyrights of the plaintiff in any manner and from disposing of any copies of said infringements.
2. That the defendants be required to pay plaintiff damages in consequence of defendants' infringements of said copyrights and said unfair

trade practices and unfair competition and to account and pay over to the plaintiff:

(a) all gains, profits and advantages derived by defendants from said unfair trade practices and unfair competition and

(b) all gains, profits and advantages derived by defendants from their infringements of plaintiff's copyrights, or such damages as to the Court shall appear proper within the provisions of the Copyright Statutes, but not less than:

Frank Sinatra.....	\$6,500,000
Henry Sanicola.....	Accounting
William Morris Agency, Inc.....	\$8,500,000
Dore Schary	\$6,000,000
Metro-Goldwyn-Mayer, Inc.....	\$23,500,000
Samuel Goldwyn.....	\$1,000,000
Sol Siegel.....	\$1,000,000
Joseph Pasternak.....	Accounting
George Murphy.....	\$500,000
Cole Porter
.....	Accounting and twice the sum thereof
John Patrick
.....	Accounting and twice the sum thereof
Sammy Cahn	\$650,000
Nicholas Brodzsky	\$250,000
Helen Rose
.....	Accounting and twice the sum thereof

George Wells	Accounting and twice the sum thereof
June Allison	Accounting and twice the sum thereof
Lauren Bacall	Accounting and twice the sum thereof
Gregory Peck	Accounting and twice the sum thereof
Broderick Crawford	Accounting
George Seaton	Accounting
Gordon Jenkins	\$300,000
Harry Lillis Crosby.....	\$4,500,000
Warner Brothers Pictures, Inc.....	Accounting
National Broadcasting Company, Inc.....	\$16,000,000
Capitol Records, Inc.....	Accounting
Columbia Broadcasting System, Inc..	\$13,000,000
American Broadcasting Company- Paramount Theatres, Inc.....	Accounting
General Motors Corporation.....	\$500,000
Rudolf Monta.....	Accounting
Liggett & Myers Tobacco Company, Inc.....	Accounting
Bulova Watch Co.-Bulova Research & Development Corp.....	Accounting

3. That the defendants be required to deliver-up to be impounded and destroyed all copies of the

said infringements in their possession or under their control.

4. That the defendants pay to the plaintiff the costs of this action and reasonable attorney's fees to be allowed to the plaintiff by the Court.

5. That the plaintiff have such other and further relief as is just.

Willedd Andrews
Attorney for Edward Dunbar O'Brien,
Plaintiff.

State of California, County of Los Angeles—ss

Edward Dunbar O'Brien, being by me first duly sworn, deposes and says: That he is the plaintiff in the foregoing and above-entitled action; that he has read the foregoing Amended Complaint II and knows the contents thereof; that the same is true of his own knowledge, except as to matters stated upon his information and belief, and as to those matters that he believes them to be true.

Edward Dunbar O'Brien, Plaintiff.

(Duly Verified. (Endorsed): Filed 5/26/61.
Page 260 of the Transcript of Record.)"

V.

Statement of Facts.

The Plaintiff-Appellant and counsel, conscious that the Complaint is compelling, anticipated all arguments and decisively demonstrated the Complaint as overpowering any objections by submitting "plaintiff's Brief in Support of the Amended Complaint II" [Tr. of Rec. pp. 262-276] conscious in addition that forms of fraud are fundaments in copyright contests, acts contra-copyright being counterfeits of actual authorship and thus fraud against the actual author and their circulation "fraud against the general public" and therefore that "If the Bill contains an allegation of fraud, it must be denied by answer . . . because fraud gives jurisdiction to the Court and lays a foundation for relief, hence a general demurrer to a bill containing such an allegation cannot be allowed." *Niles v. Anderson*, 5 How. (Miss.) 366.

Where defendants consistently demurred, admitting the whole action to be true, they are hereupon observed to universally default to avoid answer to the Complaint per Rule 15 of the Federal Rules of Civil Procedure. [Tr. of Rec. pp. 265, 277, 278.] "Defendants are required to answer to an amended complaint within 10 days."

The lower Court appealed-from, however, did not examine these universal defaults, as well as it deflected the specific and settled defaults already appearing. [Sammy Cahn, 120 days, Tr. of Rec. pp. 364 and 403; Gordon Jenkins, 90 days, Tr. of Rec. p. 404.]

But, the "Plaintiff's Brief in Support of the Amended Complaint II," page 265, Transcript of Record, beginning at line 3 states the strength and precision of the petition and illuminates the prompt reversibility of an Order sustaining demurrers to it as well as it impels defaults abasing themselves:

"Plaintiff's Brief in Support of the Amended Complaint II. . . . Plaintiff and counsel are conscious that in that hearing of April 18, 1961 in which Your Honor directed the composition of the cause into an Amended Complaint II dispensing with prolonged iteration and reiteration of the whole as separate causes and reducing the whole to 'short, simple, clear and concise statement desired,' in accord with Rule 8 (2) and (3e) of the Federal Rules of Civil Procedure and recognizing in favor of such bill,

Mumm v. Decker, 301 U. S. 168, 33 U. S. P. Q. 247 (1937);

Bobreck v. Denebeim, 39 U. S. P. Q. 336, D. C. W. Mo. (1938).

Your Honor also discussed with counsel the proposal to singularize the subjects consolidated in the cause with possible application of 'severance' per *Fielder v. Farrell Lines*, 18, Federal Rules Service at page 390, or 'if it is a conspiracy, then plead it as a conspiracy,' consolidated, per Rule 42, F. R. C. P., which plaintiff and counsel in the within Brief in Support of the Amended Complaint II seek to clarify in order to advance the action to trial.

II.

Plaintiff and counsel consider that they should bring to the attention of the adverse attorneys that whether the cause is sequestered or confederated Your Honor stated that even one item would be 'not disposing of other issues' and accordingly singularized or consolidated does not relieve any of the defendants or their attorneys of the obligation to answer to the pleading.

Plaintiff and counsel consider that they should bring to the attention of the Court that since the present petition is an amended complaint 'II,' per Rule 15 of the Federal Rules of Civil Procedure the defendants are required to answer to such amended complaint within '10 days.' They have not done so.

III.

Anticipating those argumentations in which the defendants and attorneys admit-then-argue and exhibit that the reasoning-is-reluctance, solicit the plaintiff to consider 'settlements' then proceed to subvert the settlement and to the absorption (as pleaded) of original materials obtained while plaintiff honors their proposals, the plaintiff and counsel would recall that Your Honor has cognized that the now 7 months of defending attorneys' wasteful insistence upon 'separate statements' as they conceive them has resulted in antediluvian, archaic and wholly impractical petitions embodying 66 pages in the one instance and 53 pages in another of repeating the charges over and over again as applied to each individual. Also, that as with this

insupportable trumpery taxing the plaintiff Your Honor has been caused to state to the defendants' attorneys after inviting their reasons in support of a wholly visionary 'adjudication' said to obstruct this cause 'you haven't been able to give me any reasons.'

Plaintiff and counsel submit that no realistic reasons will emerge to resist the present Amended Complaint II, and that answer and answer alone is due and may be in default (per Rule 15, F. R. C. P.) for:

1. Plaintiff and counsel have examined into the procedures of defending attorneys and find as in *Friedman v. Rohauer*, 398-60BH, WM, USDC, SoDist, Calif., (17246 USCA 9th), defending attorneys are, for their own purposes, using the same petition they are proscribing before Your Honor and that such same petition while not as specific, precise or positive as the bill in the present cause, but general, is upheld by the Associate Judges of the United States District Court for the Southern District of California, Central Division, the Honorable Peirson M. Hall, Honorable Ben Harrison, Honorable William Mathis.

2. The petition herein therefore again follows Form 17 from the Appendix of Forms annexed to the Federal Rules of Civil Procedure, 'Complaint for Infringement of Copyright and Unfair Competition' and with the extensive 'Exhibits filed with the Clerk of the Court particularizes its satisfaction of Rule 2 of the Rules Adopted By The Supreme Court of the United States for Prac-

tice and Procedure Under Section 25 of An Act to Amend and Consolidate the Acts Respecting Copyright, Approved March 4, 1909, as amended, now Title 17, U.S.C. codified by Act of July 30, 1947, 61 Stat. 652, as amended.

3. Paragraph I of the petition furnishes 'short and plain statement of jurisdiction' in accord with Rule 8, F.R.C.P., and cites section 1338 (a), Title 28, U.S.C., Act of June 25, 1948, 62 Stat. 869 as well as the above Title 17, U.S.C.

4. Paragraph II states the domiciliary and domesticated status of the parties within the jurisdiction of the Court, recognizing Section 1400, Title 28, U.S.C.

5. Paragraph III enumerates the dated and identified copyrights of the plaintiff.

6. Paragraph IV states that plaintiff created and wrote the protected works and clearly states and enumerates that they are comprehensively copyright.

7. Paragraph V identifies that plaintiff retains all rights, title and interest in and to the copyrights.

8. Paragraph VI satisfies the statutory statement that plaintiff is 'in strict conformity with all of the laws governing copyright.'

9. Paragraph VII correctly pleads that certain defendants are the 'alter egos' of corporations using plaintiff's properties, each of these stated in a separate paragraph, separate statement in accord with Rule 10, b, of the Federal Rules of Civil Procedure, each statement embracing a 'single set of

circumstances' to be stated in separate paragraphs when separate statements 'will facilitate clear representation of the matters set forth,' again in accord with Rule 10, b, F.R.C.P.

10. Paragraph VIII noting that 'it is sufficient if the petition alleges that plaintiff is the proprietor of copyrighted work and that it has been infringed by defendant(s) per *Bobrecker v. Denebeim*, 39 US PQ, 336, D.C. W.Mo. 1938 and *Mumm v. Decker*, 301 U.S. 168, 33 nevertheless 'sets forth affirmatively all of the acts done' per *Foreign and Domestic Music Corp. v. Twentieth Century Fox Film Corp.*, 34 USPQ 109, DC SNY 1937, in 'short and plain statement of the claim' in accord with Rule 8, (2) F.R.C.P., stating:

'defendants conspired and confederated . . . to infringe,'

'and they have infringed,'

'by copying and appropriating,'

'from manuscript and printed copies and private letters of plaintiff referring thereto,'

'submitted and communicated to defendants and retained,'

'and by marketing and exhibiting and selling to the general public'

'and by using the language, wordings, writing, etc.,' of plaintiff in the specified infringing works,

'by and in the following manner and means:' and the petition thereupon presents 'definite statement' in accord with Rule 12, (e) F.R.C.P., each such statement being a 'separate paragraph,' 'separate statement' Rule 10 (b), F.R.C.P., separately numbered, each 'statement of a single set of cir-

cumstances,' Rule 10 (b), F.R.C.P., recognizing each claim 'founded upon a separate occurrence to be stated in a separate paragraph when separate statement will facilitate clear representation of the matters set forth' again in accord with Rule 10 (b), F.R.C.P. Knowledge and attitude, intent, are 'averred generally' in accord with Rule 9(b) F.R.C.P., in the separately numbered and separately stated sub-paragraph 4, page 6 of Paragraph VIII.

Each occurrence and each group of persons defendant is named in the separate paragraph with the name, style and title of the act, how it occurred, and its effect upon the plaintiff."

The "Plaintiff's Brief in Support of the Amended Complaint II" adds [Tr. of Rec. p. 271, line 20] :

"14. It thus appears that plaintiff and counsel correctly plead the community, commonalty, and continuity of the cause per another of the compelling copyright decisions that the whole incidents 'rest upon substantially identical facts,' *Allen v. Barr*, 87 USPQ 194 DC EMich, 1950,

that the whole present a 'common question' per Rule 42, F.R.C.P.,

that the whole is consistent even though plaintiff may plead 'as many claims, regardless of consistency, and whether based upon legal or equitable grounds,' per Rule 18 (e) 2, of the Federal Rules of Civil Procedure.

that plaintiff and counsel with appropriate discretion submit a positive interpretation of *Fielder v. Farrell Lines*, 89 FRS at 390, herein, in that that

case negatively determines that several plaintiffs were 'without right to relief arising out of the same transaction' and that the respective occurrence were not traceable to the same circumstances, yet *Edward Dunbar O'Brien v. Frank Sinatra, et al*, is one plaintiff with rights to relief traceable to the same, and all arising from the 'same set of circumstances,' *Hurn v. Oursler*, 289 U.S. 238, 19 USPQ 195 (1933).

that the plaintiff 'is entitled to the settlement of the entire controversy in one lawsuit,' and 'may join as many persons as those against whom he has action,' 82, F.R.C.P., and plaintiff and counsel are therefore correctly cognizant of Rules 19, 20, 21, 22, 23, of the Federal Rules of Civil Procedure, in line with Rule 1, 'to secure the just, speedy and inexpensive determination of the action.'

that infringement and its concomitant unfair competition is the 'common question' per 42, F.R. C.P., and 'liability extends . . . to . . . all . . . ' *American Code Company v. Bensinger*, 282 F. 829 (CCA 2, 1922).

that there inheres in the pleadings 'letters and other private communications . . . cannot be published without consent of the writer, or authority of law,' as per *California Civil Code*, 1872, Div. 2, Pt. III, Title 2, Ch 3,

that the petition shows 'the pleader is entitled to relief, 8, (2), F.R.C.P., the present petition being *Amended Complaint II*, 'events since' the original filing are stated, and in the prayer of the petitioner the 'relief to which he deems himself entitled

. . . 'relief in the alternative or of different types' in accord with 8 (3), F.R.C.P., is specified, and plaintiff and counsel anticipate, therefore that the pleading, lawfully based and with the surest satisfaction of all rules and requirements shall be 'construed so as to do substantial justice' 8 (f), F.R.C.P., cognizant of 42, F.R.C.P.: 'In actions involving a common question of law or fact, the Court . . . order a joint hearing or trial of . . . all matters in issue in the actions; order all actions consolidated, and it may make such orders concerning the proceedings as may tend to avoid unnecessary cost or delay.' "

The Plaintiff-Appellant hereby, in the pleading, presents "a *prima facie* case sufficient to overcome any opposing motions," Alfred W. Gans, 7, Belli Seminar, "Trial and Tort Trends," 1956.

The lower Court appealed-from, regardless, and regardless of that "Court should not be allowed to give a verdict contrary to reason and justice," *Arnstein v. Porter*, 154 F. 2d 464, accorded an Order to defendants [Addendum 367] by which this action

"is dismissed with prejudice on each and all of the following grounds:

1. . . . 'fails to state a claim' . . .
2. . . . 'is barred by adjudication in . . . prior action' . . .
3. . . . 'attempt to obtain reconsideration of the complaint in said prior action' . . .
4. . . . 'does not contain a short and plain statement of the claim'

5. . . . 'does not comply with the Minute Order of April 18, 1961' ”

[see “Order of Severance” prepared by plaintiff, Tr. p. 406].

“6. ‘Amended Complaint II sets forth in a single count several separate transactions or occurrences, and a clear representation of the matters set forth therein requires that each separate transaction or occurrence be set forth in a separate count. Therefore, Amended Complaint II fails to comply with Rule 10(b) of the Federal Rules of Civil Procedure.’

7. ‘There is a misjoinder of parties defendant.’

8. ‘Amended Complaint II is unintelligible.’

9. . . . ‘fails to comply . . . in that copy of the works . . . is not attached’. . . .

10. . . . ‘Plaintiff has therefore had ample opportunity to cure the defects stated in Paragraphs 1,—4,—6, 7, 8, and 9 hereinabove and has failed to do so.’

. . . ‘dismissed upon each and all of the above stated grounds without leave to amend and with prejudice.’

. . . ‘dismissed without leave to amend and with prejudice as against all defendants named in the complaint, amended complaint, and Amended Complaint II herein.’ ”

VI.

Specification of Errors.

1. The complaint does state a claim and present facts sufficient to support cause of action.

2. The cause is not barred or adjudicated.

3. It is not "reconsideration" where a cause has not been heard and in each instance the cause is enlarged and *res nova*, "a new matter, a new case; a question not before decided."

4. The complaint does contain a short and plain statement of the claim.

5. The complaint and the "Order of Severance" [Tr. p. 406] fully comply with the Minute Order of April 18, 1961.

6. The complaint does not set forth several separate transactions in a single count but each single transaction in a separate count and therefore fully complies with Rule 10, F. R. C. P.

7. There is no misjoinder of parties defendant. If there were misjoinder the Court is in error having withdrawn the right to amend the complaint.

8. The Amended Complaint II is fully intelligible, and states facts sufficient to support cause of action.

9. Copies of the works and the infringing works are attached.

10. There are no defects in the complaint.

11. The Order states "Rules of Procedure under the Copyright Act, 17, U. S. C., 101." [Tr. p. 370.] The Rules of Practice and Procedure in Copyright Actions arise under 2072 of Title 28, U. S. C. (62 Stat. 869) [Tr. p. 387.]

VII.

Summary of Argument.

1. The claim is definitive; “infringement” states claim in Copyright Law and the event of such claim is mandatory.

2. The assertion of “adjudication” is faithless and untrue, conquered by the circumstances, repudiated by all authorities and precedents.

3. The cause requires first consideration and has not been heard, the demurrers of the defendants avoiding to meet the merits.

4. No shorter or plainer statement of claim than the one word “infringement” is possible in all law or language.

5. The “Order of Severance” drawn as directed shows the statement “does not comply” to be untrue.

6. The theory of “separations” herein is an “untenable theory” and inflates Rule 10, F. R. C. P. The complaint equates therewith.

7. It is error to revise misjoinder as a cause for dismissal and the defendants herein are properly joined.

8. All copyright authorities and decisions affirm this complaint.

9. The filing and fullness of expansive “EXHIBITS” show assertions that they are absent to be faithless and untrue and per No. 11 SPECIFICATION OF ERRORS above, the Order is additionally in error with respect to the Rules of Procedure in Copyright Actions.

10. There are no defects in the complaint, the faulting of such complaint is not in good faith.

VIII.

Argument.

1. The Claim Is Definitive: "Infringement" States Claim in Copyright Law and the Event Is Mandatory.

1. . . . "fails to state a claim" . . . But, "Claim: generally, is the assertion of a right" (Law Dictionary, Byrne, 1923, 186), and "Claim—a challenge of the ownership of a thing which is wrongfully withheld from the possession of the claimant,") see *Cummings v. Lynn, v. Dall.* (U. S.) 441 L.Ed. 215; *Willing v. Peters*, 12 S. & R. (Pa.) 177 and "claim (klam) 1. A demand of a right . . . a calling on another for something due . . . 2. A right to claim something, a title to any debt, privilege, or other thing in possession of another; also, a title to anything which another should give or concede to, or confer on, the claimant." (Webster's New International Dictionary, Unabridged, 1942). "Claim: defined as the assertion of a liability to the party making it to do some service or pay a sum of money," (*Bouvier*, "Dictionary of Law") and the Plaintiff-Appellant herein challenges the ownership and demands the payment to him of "all of the profits made by the infringers" under Section 101 of the Copyright Act, noting that the profits demanded are those published by the defendants while supposed secure in the admitted spoliations from Plaintiff-Appellant. Also, the single statement of the one word "infringement" states the claim in Copyright Law, the result being as a matter of law, Title 17, U. S. C., 101, that "all of the profits made by the infringers" must be paid over to the claimant.

2. The Assertion of “Adjudication” Is Faithless and Untrue, Contradicted by the Circumstances, Opposed by the Orders of the Several Courts and Repudiated by All Authorities and Precedents.

2. . . . “is barred by adjudication in . . . prior action” . . . But, “it is entirely improper to give any weight to other actions,” yet, “language of his rulings (the judge) indicates he was affected by them, and defending attorney’s interpretation of them” and in the words of the 2nd Circuit Court of Appeals herein “if so, he erred,” and “in so seeking to prejudge the merits he erred,” *Arnstein v. Porter*, 154 F. 2d 464.

In addition, the statement is untrue. The Orders in the actions of the Plaintiff-Appellant consistently expanding into the present action are provided in full for the perusal of the present Court of Appeals [Addendum to the Tr. of Rec.], the latter of them stating that it is not an adjudication but “without prejudice to the bringing of any further action pertaining to the subject matter sought to be litigated.”

The Orders [Addendum, Tr. of Rec.] have no elements of *res judicata*, eventuated while the plaintiff, at economic necessity, appeared in *propria persona*, and are respectively *ex parte*, the first obtained by no Notice to plaintiff and characterized by question of a statement of the domiciliary and domesticated status of defendants within the jurisdiction of the Court, and the second obtaining *ex parte* at the incapacity of the plaintiff.

Plaintiff-Appellant and counsel note that in the Order here on appeal [Addendum p. 369, line 17], the statement is altered away from *res judicata*, which was under

discussion, and the word “adjudication” is employed instead. Adjudication does not imply a final judgment, and therefore cannot controvert the present action, nor, again, if *res judicata* is argued, do either of the Orders [Addendum] hold any elements of *res judicata* for the elements here are firmly and universally “held not to bar a subsequent suit:”

“a suit dismissed for want of prosecution and not heard on the merits;

Decision of a motion is not in the light of *res judicata*;

Demurrer not going to the merits is not *res judicata*; etc.”

Bowvier, “Dictionary of Law.”

and

“Judgment dismissing suit . . . may not preclude plaintiff from bringing new suit.” *Dowling v. Polack* (1861), 18 Cal. 625, a century old precedent.

“Judgment of dismissal for want of prosecution is not *res judicata*,” *McManus v. Bendlage* (1947), 82 Cal. App. 2d 916, 187 P. 2d 854;

“a judgment of dismissal entered upon plaintiff’s failure to appear is not a bar,” 42 Pac. (Nev.) 11.

In the instances, the first, the plaintiff was not notified of the hearing, and in the second instance was hospitalized, unknowing of hearing and the action was in *pro per*.

The cause consistently expands, as, present additional acts of the defendants will make the whole new again when remanded and adjudication, therefore, is an ar-

gument, not an actuality, and to be *res judicata* four things are necessary:

“Identity in the thing sued for;

Identify of the cause of action;

Identity of persons and of parties to the action;

Identity of the quality in the persons for or against whom the claim is made.” *Bouvier*, “Dictionary of Law.”

The Orders indicated are on no more than Motions and on demurrers, as herein, which do not meet the merits, therefore no elements of *res judicata* can obtain and nothing obstructs the plaintiff from proceeding, determination of the cause obtaining only when the final word of the highest Court has been spoken (noting, aside, the personality possibilities and perseverance of the Plaintiff-Appellant herein). And each and every applying to the cause or causes being not final judgments but appealable orders.

3. The Demurrers of Defendants Admitting Duplicity Only Confute Consideration; the Cause Has Not Been Heard and Nothing Is Therefore Proffered for Reconsideration but All Presented for Ruleful and Lawful First Consideration and Trial.

3. . . . “attempt to obtain reconsideration of the complaint in said prior action.” . . . But, since there is no adjudication of any action it is not in point whether consideration or reconsideration is asked, and factually, the plaintiff continues to attempt to obtain only consideration of the trial which he demands, and of which he cannot be deprived, yet the defendants actions and arguments and Order here obtained, if admitting the

charges against them, approach inciting a question of Constitutional Law for they are interfering with and impairing Plaintiff-Appellant's inalienable right to trial, Section 7, Article I, Bill of Rights, Constitution of the United States.

4. "Infringement" States Succinct and Certain, Clear and Specific Claim.

4. . . . "does not contain a short and plain statement of the claim" . . . But, since, in copyright, "claim" is actually stated in one word "infringement," "copying," or "appropriation," no shorter or plainer statement of the claim is possible in all law, and, as above, this Brief has fixed the nature of claim.

5. The "Order of Severance" Drawn as Directed Shows the Statement of Non-Compliance to Be Untrue.

5. . . . "does not comply with the Minute Order of April 18, 1961" . . . But, this statement is untrue. The Plaintiff-Appellant did fully comply as [see "Order of Severance" Tr. of Rec. p. 406] directed by the Court and the "Order of Severance" was drawn and offered, with the Court refusing to read the "Order of Severance" the Court directed to be drawn, and with the Court having quoted as authority for such "severance" a case not in point and the opposite of the within action (*Fielder v. Farrell Lines*, 89 F. R. S. at 390 involving many plaintiffs and not the same transaction as opposed, herein, to one plaintiff and all the same transaction). Nevertheless, the Plaintiff-Appellant complied as apparent in the "Order of Severance"

submitted, though submitting to the consideration of the Court that such “severance” is unknown and would possibly dismember and disperse the cause herein, possibly defeating it by the ageless “divide and conquer,” that such “severance” appears to absent the applicable Rules 21 and 42 of the Federal Rules of Civil Procedure and is impracticable as resulting in as many as 16 Trials of 2-3rds of the defendants rather than the obvious and lawful 1 Trial of all. [Tr. of Rec. pp. 271-276; Tr. of Proc. pp. 5-6.]

6. The Defendants Pursue an “Untenable Theory” to Avoid Answering and Accounting, Asking the Court to “Obliterate the Gravamen of the Case” Rejected in *Tooke v. Allen*, 85 Cal. App. 2d 230, at Tr. p. 275, 276, and Higher Courts Should Not Sustain Small Arguments for Unjust Purposes That Lower Courts Have Already Rejected.

6. . . . “separate transaction or occurrence be set forth in a separate count” . . . But, two forms of Complaint (66 pages and 53 pages) were filed and the Court asked there be replacement thereof with the Amended Complaint II and the Amended Complaint II does state each incident individually and in consonance with Rule 10, F. R. C. P. demonstrated, as well as the demurrers are here pursuing an “untenable theory” to proscribe the pleading and despite that the Supreme Court orders this pleading, Form 17, F. R. C. P., and the “untenable theory” is defined where the trial judge rejected such theory, *Tooke v. Allen*, 85 Cal. App. 2d 230, shown at Transcript of Record, pages 275, 276.

7. It Is Error to Revive the Abolished Misjoinder as a Contention for Dismissal and the Defendants Herein Are Properly Joined.

7. "There is a misjoinder of parties defendant." But, it is a commonplace that misjoinder is not a cause for dismissal of a cause, and the Court faults its own Order by reviving misjoinder as such. The defendants herein are properly joined as the pleading presents, each exchanging and commonly concerted and combined in the conspiracy charged.

8. All Copyright Authorities and Copyright Decisions Confirm the Complaint as Stating Facts Sufficient to Support the Cause of Action.

8. "Amended Complaint II is unintelligible." But, all copyright authorities and all causes in copyright support it and this "unintelligible" Form is annexed to the Federal Rules of Civil Procedure. Moreover, if the intelligibility of an item were arguable, it is superseded by the fact that the works themselves are before the Court, *Shipman v. R.K.O. Radio Pictures, Inc.*, 35 U. S. P. Q. 242 (1937).

9. The Filing and Fullness of Expansive "Exhibits" Show Assertion That They Are "Not Attached" to Be Faithless and Untrue. The Order Is in Error in the Statement "Rules of Practice, 17, U.S.C. 101," Said Rules Instead Arising Under Title 28, U.S.C., 2072.

9. . . . "fails to comply . . . in that copy of the works . . . is not attached" . . . This statement is untrue and the paragraph of the Order [Tr. of Rec. p. 370 and Addendum] contains an error of law as shown in "Statement of Objections of Plaintiff to the

Draft: 'Order Granting Motion to Dismiss' and 'Judgment of Dismissal' " [Tr. of Rec. p. 373] at page 387 Transcript of Record. The contention is answered by the expansive "EXHIBITS" filed with the Court and shown pages 58 to 72 and 79 to 102 of the Transcript of Record and otherwise by the Copyright Decisions which have inconvenienced procedure in such causes.

**10. The Faulting of the Complaint Is Not in Good Faith;
There Are No Defects in Such Complaint.**

10. . . . "cure the defects" . . . But, the Complaint is indisputable and universally upheld, not defective, and the Plaintiff-Appellant calls upon the Court of Appeals for the Ninth Circuit to so define in assistance of all copyright actions.

. . . "dismissed . . . without leave to amend and with prejudice" . . . But, if contest concerning the Complaint were credible, to amend any Complaint, even unlimitedly, is universal and perfunctory justice to the degree that it does not need to be discussed.

And, "with prejudice" to this plaintiff is prejudice itself. It inheres in the multiple manifests of action and the length of the litigation that there has never been an item of untoward or undignified action from the Plaintiff-Appellant. Rather, the Plaintiff-Appellant desires the cause to contribute to the law and is shown to have set himself to have the case fix the principle that good will serves all and is the wish of the Courts.

In general, general demurrer not going to the merits must be overruled, and at no page of the hundreds of pages in the Transcript of Record herein or the files of the preceding actions will the Court of Appeals

find anything other than general demurrers admitting the whole charges, each time, to be true, and avoiding to meet the merits but obtaining suspense of decision or action, and *Weitzenkorn v. Lesser*, quoted 97 U. S. P. Q. 556 states "the common count . . . is not subject to attack by general demurrer or by a special demurrer for uncertainty or on grounds of ambiguity or unintelligibility;" "this form of pleading . . . by long continued practice is not subject to attack," "well pleaded facts must be taken as true for the purposes of demurrer," and:

"A count of a complaint which alleges that plaintiff wrote and was exclusive owner of a literary composition, . . . had submitted it to defendants . . . states a cause of action and a judgment of dismissal following an order sustaining a demurrer will be reversed with directions to permit defendant to answer."

"A count of a complaint which alleges that plaintiff furnished to defendants . . . and that defendants retained and used to . . . damages . . . states a cause of action and a judgment of dismissal following an order sustaining a demurrer will be reversed with directions to permit defendant to answer."

Identically, "a count of a complaint which alleges that plaintiff" as within "submitted to defendants . . . that defendants accepted . . . became fully familiar with it . . . and thereafter produced and broadcast . . . substantially copied, used and embodied . . . states a cause of action, and a judgment for defendants entered on an order sustaining demurrers without leave

to amend will be reversed with directions to permit defendants to answer," *Kurlan v. Columbia Broadcasting System, Inc.* (1953), 40 Cal. 2d 799, 256 P. 2d 962, and:

"A count of a complaint which alleges that plaintiff submitted program idea and sample . . . recording . . . for the purpose of sale or use by them on payment to him of its reasonable value . . . and they . . . substantially copied and used . . . states a cause of action on an implied contract, and a judgment for defendants entered on an order sustaining their demurrers without leave to amend will be reversed with directions to permit defendants to answer," and 3 times further this cause states the same against such demurrers as appear in the within "will be reversed with directions to permit defendants to answer."

Counsel is caused to submit in the case of *Edward Dunbar O'Brien v. Frank Sinatra, et al.*, herein, that the Court has acted with accumulated abuse of discretion, reversible, remandable and reprimandable. The Court has acted with bias and prejudice, "a forejudgment, a leaning toward one side of a cause for some reason other than its justice." *Willis v. State*, 12 Ga. 448.

The Court appears to have accepted the defendants pretensions to privilege and power against all law and to have denied all reason and justice to this plaintiff. The Court addressed the statement to the defending attorneys: "The only way you're ever going to get rid of it is to get an order that will be binding" and it is submitted that with bias and prejudice contributes to compounding such an order though false, pre-judged

the case and predetermined to displace it, and in addition to the Order of Dismissal appealed.

—refused to read the order of severance the Court directed to be drawn,

—refused to allow the plaintiff to speak to illuminate the copyrights about which the Court had just inquired,

—refused to help to obtain the return of the Plaintiff-Appellant's manuscripts held in the Adverse Possession of defendants,

—demonstrated disregard of the expansive and superseding "EXHIBITS" and acted without informing himself that boxes thereof were on file,

—circumscribed the issue of restraining orders upon defendants until the whole cause could be voided by the willful, illegal Order of Dismissal appealed,

—exorcised the entry of defaults of defendants in default respectively 120 days and 90 days, and evaded evaluation of the fact that all defendants appearing in addition, were in default to the Amended Complaint II for a period of 31 days on the date nevertheless of issuing such Order of Dismissal.

IX.

Conclusion.

The Order dismissing Plaintiff-Appellant's cause of action without leave to amend should be reversed and remanded with instructions to the defendants to answer and to proceed according to the rules (F.R.C.P.), and to enter the specific defaults, or in the alternative,

The Court of Appeals may declare the default of all defendants [Tr. of Rec. p. 375], and direct that an accounting of the monies due to the Plaintiff-Appellant be heard.

Respectfully submitted,

WILLEDD ANDREWS,
Attorney for Edward Dunbar O'Brien,
Plaintiff-Appellant.

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

WILLEDD ANDREWS

